STRATEGIC STOCKPILES

HEARINGS

BEFORE THE

SUBCOMMITTEE ON PREPAREDNESS

OF THE

COMMITTEE ON ARMED SERVICES

UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

ON

S. 1982

TO AMEND THE STRATEGIC AND CRITICAL MATERIALS STOCK PILING ACT AND THE DEFENSE PRODUCTION ACT OF 1950 TO STRENGTHEN MILITARY PREPAREDNESS, AND FOR OTHER PURPOSES

S. 2429

TO DIRECT THE ADMINISTRATOR OF GENERAL SERVICES TO ACQUIRE COPPER FOR THE NATIONAL DEFENSE STOCKPILE

JUNE 9, 10, 1982

Printed for the use of the Committee on Armed Services

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STRATEGIC STOCKPILES

WEDNESDAY, JUNE 9, 1982

U.S. SENATE,
SUBCOMMITTEE ON PREPAREDNESS,
COMMITTEE ON ARMED SERVICES,
Washington, D.C.

The subcommittee met in open session at 10 a.m., pursuant to notice, in room 212, Russell Senate Office Building, Senator Gordon J. Humphrey, chairman presiding.

Present: Senators Humphrey, Jackson and Levin.

Staff present: Paul C. Besozzi, minority counsel; George K. Johnson, Jr., David S. Lyles and James C. Smith, professional staff members; Mary Shields, research assistant; and Jacquie S. O'Grady, staff assistant.

Also present: Dennis P. Sharon, assistant to Senator Goldwater; George Kohl, assistant to Senator Humphrey; Robert Nichols, assistant to Senator Jackson; and Frank Krebs, assistant to Senator Cannon.

The bills [S. 1982 and S. 2429 follow:]

97TH CONGRESS
1ST SESSION

S. 1982

To amend the Strategic and Critical Materials Stock Piling Act and the Defense Production Act of 1950 to strengthen military preparedness, and for other purposes.

IN THE SENATE OF THE UNITED STATES

DECEMBER 16 (legislative day, NOVEMBER 30), 1981

Mr. SCHMITT (for himself, Mr. WARNER, Mr. JEPSEN, and Mr. DECONCINI) introduced the following bill; which was read twice and referred to the Committee on Armed Services

---

A BILL

To amend the Strategic and Critical Materials Stock Piling Act and the Defense Production Act of 1950 to strengthen military preparedness, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Strategic Stockpile Reform Act of 1981".

TITLE I—AMENDMENTS TO THE STRATEGIC AND CRITICAL MATERIALS STOCK PILING ACT; RELATED AMENDMENTS

SEC. 101. The Strategic and Critical Materials Stock Piling Act (50 U.S.C. 98 et seq.) is amended—

(1) by striking out sections 5 and 12;

(2) by redesignating sections 3, 4, 6, 7, 8, 9, 10, 11, and 13 as sections 6, 7, 8, 9, 10, 11, 12, 13, and 14, respectively;

(3) by inserting after section 2 the following new sections:

"DEFINITIONS

"SEC. 3. For the purposes of this Act:

"(1) The term 'strategic and critical materials' means materials that (A) would be needed to supply the military, industrial, and essential civilian needs of the United States during a national emergency, and (B) are not found or produced in the United States in sufficient quantities to meet such need.

"(2) The term 'national emergency' means a general declaration of emergency with respect to the national defense made by the President or by the Congress.

"(3) The terms 'stockpile' and 'National Defense Stockpile' means the National Defense Stockpile described in section 6(a).

"(4) The term 'agency' has the same meaning as provided in section 551(1) of title 5, United States Code.

"ESTABLISHMENT OF THE STRATEGIC STOCKPILE COMMISSION

"SEC. 4. (a) There is established as an independent agency in the executive branch of the Federal Government a commission to be known as the Strategic Stockpile Commission (hereafter in this Act referred to as the 'Commission').

"(b) The Commission shall be composed of five members appointed by the President, by and with the advice and consent of the Senate, from among individuals who have substantial experience, training, or expertise in national defense matters, economics, finance, industrial mobilization, foreign affairs, or the development and marketing of ores and other mineral substances. Not more than three members of the Commission shall be members of the same political party.

"(c)(1) Except as provided in paragraphs (2) and (3), the term of office of each member of the Commission shall be ten years.

"(2) Of the members of the Commission first appointed under subsection (b)—

"(A) one shall be appointed for a term of two years;

"(B) one shall be appointed for a term of four years;

"(C) one shall be appointed for a term of six years;

"(D) one shall be appointed for a term of eight years; and

"(E) one shall be appointed for a term of ten years.

"(3) Any member appointed to fill a vacancy occurring before the expiration of the term for which his predecessor was appointed shall be appointed for the remainder of such term.

"(d)(1) The President shall designate, by and with the advice and consent of the Senate, one member of the Commission appointed under subsection (b) to serve as the Chairman. The Chairman shall be the principal executive officer of the Commission and shall preside at meetings of the Commission.

"(2) The President shall designate, by and with the advice and consent of the Senate, one member of the Commission appointed under subsection (b) to serve as the Vice Chairman. In the absence or disability of the Chairman, the Vice Chairman shall act as Chairman.

"(e)(1) The members of the Commission shall meet regularly and shall perform the functions and exercise the powers of the Commission on a majority vote of a quorum of the Commission.

"(2) A vacancy in the Commission shall not impair the authority of a quorum of the Commission to perform the functions or exercise the powers of the Commission.

"(f) Three members of the Commission shall constitute a quorum for the transaction of business.

"FUNCTIONS OF THE STRATEGIC STOCKPILE COMMISSION

"SEC. 5. The Commission shall—

"(1) after consulting with the Secretary of Commerce, the Secretary of Defense, the Secretary of the Interior, and the head of any other agency as the Commission considers appropriate, develop policy for the management of the National Defense Stockpile;

"(2) manage the National Defense Stockpile;

"(3) make recommendations to the President, the Congress, and the agencies for such action as the Commission considers appropriate with respect to—

"(A) national policy on strategic and critical materials; and

"(B) research and development relating to strategic and critical materials; and

"(4) perform such additional functions as may be required under the provisions of title III of the Defense Production Act of 1950."; and

(4) by adding at the end thereof the following new sections:

"ADMINISTRATIVE PROVISIONS

"SEC. 15. (a) In order to carry out its functions under this Act, the Commission may—

"(1) prescribe such regulations as the Commission considers necessary to carry out the provisions of this Act;

"(2) subject to civil service and classification laws, appoint, employ, and fix the compensation of such personnel as may be necessary to carry out the provisions of this Act;

"(3) establish such standing and ad hoc interagency committees composed of such officers and employees of the Government as the Commission considers necessary to carry out the provisions of this Act;

"(4) obtain from any Federal agency, including any independent establishment or instrumentality of the United States, advice, information, estimates, statistics, and such other assistance as the Commission considers necessary for the performance of its functions under this Act;

"(5) solicit from any State or political subdivision thereof advice, information, estimates, statistics, and such other assistance as the Commission considers necessary for the performance of its functions under this Act;

"(6) obtain the services of experts and consultants in accordance with the provisions of section 3109 of title 5, United States Code;

"(7) accept and utilize the services of individuals employed intermittently in the Government service and reimburse such individuals for travel expenses, as authorized by section 5703 of title 5, United States Code, including per diem as authorized by section 5702 of such title;

"(8) enter into contracts or other arrangements, or modifications thereof, to carry out the provisions of this Act;

"(9) make advance, progress, and other payments which the Commission considers necessary to carry out the provisions of this Act without regard to the provisions of section 3648 of the Revised Statutes, as amended (31 U.S.C. 529);

"(10) make such other expenditures as the Commission determines are necessary to carry out the provisions of this Act; and

"(11) pay the compensation of personnel, per diem, travel expenses, and all other expenses of the Commission from the National Defense Stockpile Transaction Fund established by section 11.

"(b) Any officer or employee of the Government who is designated by the Commission under subsection (a)(3) to be a member of a standing or ad hoc interagency committee shall serve on such committee.

"TRANSFER OF AUTHORITY DURING TIME OF WAR

"SEC. 16. Notwithstanding any other provision of this Act, upon a declaration of war or national defense emergency the President shall assume the functions of the Commission and shall make the determinations and issue the orders authorized by this Act. In time of war declared by the Congress, the Commission shall act at the direction of the President in the performance of such functions.".

SEC. 102. (a) Except as otherwise specifically provided, wherever in this section a reference is expressed in terms of a section of the Strategic and Critical Materials Stock Piling Act, the reference is to the section as redesignated by section 101(2).

(b) The Strategic and Critical Materials Stock Piling Act (50 U.S.C. 98 et seq.) is further amended—

(1) in section 8—

(A) by striking out clause (2) of subsection (a) and inserting in lieu thereof the following:

"(2) insure that such materials, after acquired, are maintained in a condition suitable for industrial and de-

fense uses by providing for the storage, security, and maintenance of the materials in the stockpile;";

(B) by striking out clauses (4) and (5) of subsection (a) and inserting in lieu thereof the following:

"(4) provide for the rotation of any material in the stockpile when necessary to insure that the material in the stockpile at any time is of a quality suitable for industrial use as determined by applying the applicable industry's standards (with respect to the quality of such material) at such time;

"(5) subject to the notification requirement in subsection (d)(2), dispose of such materials as the Commission considers appropriate to carry out the provisions of this Act; and"; and

(C) by adding at the end thereof the following new subsection:

"(f) In disposing of materials under this Act, the Commission may manage and administer the sale of such materials in foreign countries.";

(2) in section 9—

(A) by striking out "and" at the end of subsection (a)(1);

(B) by striking out the period at the end of subsection (a)(2) and inserting in lieu thereof a semicolon and "and";

(C) by adding at the end of subsection (a) the following new clause:

"(3) on the order of the Commission during any period in which there is a severe interruption or restriction in the supply of such materials as the result of an economic embargo or other condition."; and

(D) by adding at the end thereof the following new subsection:

"(c) An order issued under subsection (a)(3) shall provide (1) only for the release of the types of materials the supply of which is severely interrupted or restricted, and (2) for the disposition of such materials (A) by sale at the prevailing fair market price of such materials in the United States, and (B) in quantities that will not reduce the quantities of such materials in the stockpile below necessary minimum quantities specified by the Commission."; and

(3) in section 11—

(A) by striking out "appropriated" in the second sentence of subsection (b)(1) and inserting in lieu thereof "expended";

(B) by striking out subsection (b)(2) and inserting in lieu thereof the following:

"(2) Moneys covered into the fund under paragraph (1) and subsection (c) and any moneys appropriated to the fund shall be available, without fiscal year limitation, to carry out the provisions of this Act unless otherwise provided in appropriation Acts.";

(C) by striking out paragraph (3) of subsection (b); and

(D) by striking out "and shall be available only for the acquisition of replacement materials" in subsection (c).

SEC. 103. (a) Section 5313 of title 5, United States Code, is amended by adding at the end thereof the following new item:

"Chairman, Strategic Stockpile Commission.".

(b) Section 5314 of such title is amended by adding at the end thereof the following new item:

"Members, Strategic Stockpile Commission (4).".

TITLE II—AMENDMENTS TO THE DEFENSE PRODUCTION ACT

SEC. 201. (a) Section 301 of the Defense Production Act of 1950 (50 U.S.C. App. 2091) is amended—

(1) in subsection (a)(1)—

(A) by inserting "(A)" after "(a)(1)";

(B) by inserting "the Commission," after "the Department of Commerce,"; and

(C) by adding at the end thereof the following new subparagraph:

"(B) Subject to the provisions of subsection (e)(1)(B), the Commission may, without the authorization of the President, guarantee loans in the manner provided in subparagraph (A) to expedite production and deliveries or services under Government contracts entered into by the Commission in the management of the National Defense Stockpile.";

(2) in the first sentence of subsection (b) by inserting "or when designated by the Commission in any case in which the Commission is acting under subsection (a)(1)(B)," after "President,";

(3) in subsection (c) by striking out "President, and to such regulations as he may prescribe; and the President" and inserting in lieu thereof "President, or of the Commission in any case in which the Commission is acting under subsection (a)(1)(B), and to such regulations as the President or the Commission, as the case may be, may prescribe. The President or, in any case in which the Commission is acting under subsection (a)(1)(B), the Commission"; and

(4) in the first sentence of subsection (e)(1)(B), by inserting ", or which are initiated by the Commission under subsection (a)(1)(B)," after "subparagraph (A)".

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(b) Section 302 of such Act (50 U.S.C. App. 2092) is amended—

(1) by inserting "(a)" before the first sentence; and

(2) by adding at the end thereof the following new subsection:

"(b)(1) Subject to paragraph (2), the Commission may, without the authorization of the President, make provision for such loans described in subsection (a) as the Commission considers necessary in the management of the National Defense Stockpile.

"(2) The Commission may not make provision for any loan under paragraph (1) unless—

"(A) the Committees on Armed Services of the Senate and the House of Representatives have been notified in writing of the proposal to make provision for such loan;

"(B) a period of 60 days of continuous session of Congress has expired since the date on which the notice was transmitted to such Committees; and

"(C) neither House of Congress has adopted, within such period, a resolution disapproving such proposal.".

(c) Section 303 of such Act (50 U.S.C. App. 2093) is amended by adding at the end thereof the following new subsection:

"(h)(1) Subject to the provisions of paragraph (2), the Commission may, without the authorization of the President, make provision for any action described in subsections (a), (c), (e), and (g) whenever the Commission considers such action necessary to carry out its functions under the Strategic and Critical Materials Stock Piling Act. In making any such provision, the Commission may exercise the same authority as the President, and shall be subject to the same limitations on such authority, as provided in subsections (a), (b), (c), and (d).

"(2)(A) The Commission may not make provision for action as authorized under paragraph (1) unless—

"(i) the Committees on Armed Services of the Senate and the House of Representatives have been notified in writing of the proposal for such action;

"(ii) a period of 60 days of continuous session of Congress has expired since the date on which the notice was transmitted to such Committees; and

"(iii) neither House of Congress has adopted, within such period, a concurrent resolution disapproving the proposal for such action.

"(B) For the purposes of subparagraph (A), the continuity of a session of Congress is broken only by an adjournment

of the Congress sine die, and the days on which either House is not in session because of an adjournment of more than three days to a day certain are excluded in the computation of the 60-day period.".

(d) Subsection (a) of section 304 of such Act (50 U.S.C. App. 2094) is amended by inserting a comma and "including the Commission," after "Government".

(e) Section 308 of such Act (50 U.S.C. App. 2098) is amended by adding at the end thereof the following new subsections:

"(d) For the purposes of this title, the term 'Commission' means the Strategic Stockpile Commission established by section 4 of the Strategic and Critical Materials Stock Piling Act.

"(e) For the purposes of this title, the term 'National Defense Stockpile' means the National Defense Stockpile described in section 6(a) of the Strategic and Critical Materials Stock Piling Act.".

(f) Such Act is further amended by adding at the end thereof the following new section:

"SEC. 309. The Commission shall make recommendations to the President for such actions by the President under this title as the Commission considers appropriate.".

TITLE III—MISCELLANEOUS, TECHNICAL, AND CONFORMING AMENDMENTS

SEC. 301. (a) Except as otherwise specifically provided, wherever in this section a reference is expressed in terms of a section of the Strategic and Critical Materials Stock Piling Act, the reference is to the section as redesignated by section 101(2).

(b) The Strategic and Critical Materials Stock Piling Act (50 U.S.C. 98 et seq.) is amended—

(1) in sections 6, 8, 9, 10, 12, and 13 by striking out "President" each place it appears and inserting in lieu thereof "Commission";

(2) in section 6—

(A) by striking out "(hereinafter in this Act referred to as the 'stockpile')" in subsection (a); and

(B) by striking out "The" in subsection (b) and inserting in lieu thereof "Except as provided in section 9(a)(3), the";

(3) in section 8—

(A) by striking out "section 3(a)" in subsection (a)(1) and inserting in lieu thereof "section 6(a)";

(B) by striking out "subject to the provisions of section 5(b)," in subsection (a)(6); and

(C) by striking out "section 7(a)" in the first sentence of subsection (b) and inserting in lieu thereof "section 9(a)";

(4) in section 10(b) by striking out "section 3(a)" and inserting in lieu thereof "section 6(a)";

(5) in section 11—

(A) by striking out "paragraphs (5) and (6) of section 6(a)" in subsection (b)(1) and inserting in lieu thereof "clauses (E) and (F) of section 8(a)(1)";

(B) by striking out "section 6(a)(1)" in subsection (b)(2) and inserting in lieu thereof "section (8)(a)(1)(A)"; and

(C) by striking out "section 6(a)(4) or disposed of under section 7(a)" in subsection (c) and inserting in lieu thereof "section 8(a)(1)(D) or disposed of under section 9(a)"; and

(6) in section 13(2) by striking out "section 6(c)" and inserting in lieu thereof "section 8(c)".

(c)(1) The section heading of section 6 of such Act is amended by striking out "PRESIDENTIAL" and inserting in lieu thereof "COMMISSION".

(2) The section heading of section 9 of such Act is amended by striking out "PRESIDENT" and inserting in lieu thereof "COMMISSION".

TITLE IV—TRANSFER, SAVINGS, AND PERSONNEL PROVISIONS

SEC. 401. For the purposes of this title—

(1) the term "Commission" means the Strategic Stockpile Commission established by section 4 of the Strategic and Critical Materials Stock Piling Act as added by section 101(3) of this Act; and

(2) the term "agency" has the same meaning as provided in section 551(1) of title 5, United States Code.

SEC. 402. (a) There are transferred to the Commission all functions of the President under the Strategic and Critical Materials Stock Piling Act being administered by and through the Federal Emergency Management Agency or the General Services Administration on the day before the effective date of this Act.

(b) The assets, liabilities, contracts, property, records, and unexpended balances of appropriations, authorizations, allocations, and other funds employed, held, used, available, or to be made available in connection with or arising from the functions transferred to the Commission by this Act are, subject to section 202 of the Budget and Accounting Procedures Act of 1950 (31 U.S.C. 581c), transferred to the Commission.

(c) The Director of the Office of Management and Budget, at such time or times as the Director shall provide, may provide for such additional incidental transfers of assets, liabilities, grants, contracts, property, records, and unexpended balances of appropriations, authorizations, allocations, and other funds held, used, available, or to be made available in connection with or arising from the functions transferred to the Commission by this Act as may be necessary to carry out the provisions of the Strategic and Critical Materials Stock Piling Act.

(d) Subject to the provisions of this Act and notwithstanding the provisions of chapter 9 of title 5, United States Code, the President, for a period of one hundred and eighty days after the effective date of this Act, may transfer to the Commission any functions (including powers, duties, activities, facilities, and parts of functions) of any other agency of the United States, or of any officer or office thereof, which relate primarily to the functions transferred to the Commission by this Act. In connection with any such transfer, the President may, under this section, or other applicable authority, provide for appropriate transfers of records, property, and funds.

SEC. 403. (a) All orders, determinations, rules, regulations, permits, contracts, certificates, licenses, and privileges—

(1) which have been issued, made, granted, or allowed to become effective in the performance by any other agency, before the effective date of this Act, of functions transferred to the Commission by this Act; and

(2) which are in effect at the time this Act takes effect,

shall continue in effect according to their terms until modified, terminated, superseded, set aside, or repealed by the President, by the Commission, by any court of competent jurisdiction, or by operation of law.

(b) The provisions of this Act shall not affect any proceedings pending at the time this Act takes effect before any agency or any component thereof; but such proceedings, to the extent that they relate to functions transferred to the Commission by this Act, shall be continued before the Commission. Orders shall be issued in such proceedings, appeals shall be taken therefrom, and payments shall be made pursuant to such orders, as if this Act had not been enacted; and orders issued in any such proceedings shall continue in effect until modified, terminated, superseded, or repealed by the Commission, by a court of competent jurisdiction, or by operation of law.

(c) Except as provided in subsection (e)—

(1) the provisions of this Act shall not affect actions commenced before the effective date of this Act, and

(2) in all such actions proceedings shall be had, appeals taken, and judgments rendered in the same manner and effect as if this Act had not been enacted.

(d)(1) No action or other proceeding commenced by or against any officer in his official capacity as an officer of any agency shall abate by reason of the enactment of this Act. No cause of action of or against any agency, or any officer thereof in his official capacity, shall abate by reason of the enactment of this Act. Causes of action and actions or other proceedings with respect to a function transferred to the Commission by this Act may be asserted by or against the United States or the Commission, as may be appropriate.

(2) If, before the date on which this Act takes effect, any agency, or any officer thereof in his official capacity, is a party to an action arising from the performance of a function transferred to the Commission by this Act, such action shall be continued with the Commission substituted or added as a party.

(3) In any action pending on the effective date of this Act, the court may at any time, on its own motion or that of any party, enter an order which will give effect to the provisions of this subsection.

(e) Orders issued and actions taken by the head of an agency in the performance, before the effective date of this Act, of the functions transferred to the Commission by this Act shall be subject to judicial review to the same extent and in the same manner as if such orders had been issued and such actions had been taken by the head of the agency performing such functions on the day before the effective date of this Act. Any statutory requirements relating to notice, hearings, actions upon the record, or administrative review that apply to any functions transferred to the Commission by this Act shall apply to the performance of such functions by the Commission.

(f) Reference in any other Federal law to the President, any agency, or any officer or office of such agency with respect to any function transferred to the Commission by this Act, shall be deemed to refer to the Commission.

SEC. 404. In appointing or employing personnel, the Commission shall consider the applications for appointment or employment submitted by individuals who, as of the day before the date of the enactment of this Act, have been appointed or are employed to perform the functions transferred to the Commission by this Act. Notwithstanding any other provision of law, the Commission shall not be required to appoint or employ such individuals or to give preference to any such individual in appointing or employing personnel.

TITLE V—INTERIM ACTIONS; INTERIM FUNDING; EFFECTIVE DATE

SEC. 501. (a)(1)(A) The members of the Commission may be appointed in the manner provided by this Act at any time after the date of the enactment of this Act.

(B) The Commission may, at any time after the date of the enactment of this Act, select for appointment or employment personnel to be appointed or employed by the Commission on or after the effective date of this Act.

(2) Each member of the Commission shall be compensated from the date the member is appointed.

(3) The compensation of members of the Commission and the other expenses of the Commission incurred under this subsection shall be paid from funds in the National Defense Stockpile Transaction Fund established by section 9 of the Strategic and Critical Materials Stock Piling Act (50 U.S.C. App. 98h).

(b) There are authorized to be appropriated, from funds in the National Defense Stockpile Transaction Fund not otherwise appropriated, such amounts as may be necessary to carry out the provisions of subsection (b).

SEC. 502. (a) Except as provided in subsection (b), this Act and the amendments made by this Act shall take effect one hundred and eighty days after the date of the enactment of this Act.

(b) This section and section 501 shall take effect on the date of the enactment of this Act.

97TH CONGRESS
2D SESSION

S. 2429

To direct the Administrator of General Services to acquire copper for the National Defense Stockpile.

IN THE SENATE OF THE UNITED STATES

APRIL 22 (legislative day, APRIL 13), 1982

Mr. DECONCINI (for himself and Mr. DOMENICI) introduced the following bill; which was read twice and referred to the Committee on Armed Services

---

A BILL

To direct the Administrator of General Services to acquire copper for the National Defense Stockpile.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "National Defense Stockpile Copper Acquisition Act of 1982".

SEC. 2. (a) The Administrator of General Services shall acquire such quantities of copper from domestic producers as may be acquired for the amount of funds available for such purpose under section 9(d) of the Strategic and Critical Materials Stock Piling Act (as added by section 3 of this Act) (50 U.S.C. 98h(d)).

(b) The acquisition of copper under authority of subsection (a) shall be made in accordance with subsection (b) of section 6 of the Strategic and Critical Materials Stock Piling Act (50 U.S.C. 98e), but without regard to the provisions of subsections (c) and (d) of such section.

(c) Copper acquired under authority of subsection (a) shall be added to and made a part of the National Defense Stockpile described in section 3(a) of the Strategic and Critical Materials Stock Piling Act (50 U.S.C. 98b(a)).

SEC. 3. Section 9 of the Strategic and Critical Materials Stock Piling Act (50 U.S.C. 98h) is amended by adding at the end thereof the following new subsection:

"(d)(1) Notwithstanding subsections (b) and (c), the moneys in the fund shall be available to carry out section 2 of the National Defense Stockpile Copper Acquisition Act of 1982 in an amount calculated as provided in paragraph (2).

"(2) For the purpose of paragraph (1), the amount available shall be the greater of—

"(A) the amount necessary to acquire 200,000 short tons of copper; or

"(B) the excess of the amount of moneys in the fund on the effective date of this subsection over $120,000,000.".

OPENING STATEMENT BY SENATOR GORDON J. HUMPHREY, CHAIRMAN

Senator HUMPHREY. The hearing will come to order.

This morning we will begin hearings concerning issues surrounding the national defense stockpile and in particular those legislative initiatives concerning the stockpile that have been referred to the Armed Services Committee.

There are two stockpile bills that have recently been referred to the Armed Services Committee. The first is S. 1982, to amend the Strategic and Critical Materials Stock Piling Act and the Defense Production Act of 1950, which was introduced by Senator Schmitt. This bill calls for some substantive changes in the current laws.

The second bill is S. 2429, which was introduced by Senator DeConcini and would direct the General Services Administration to purchase copper for the national defense stockpile.

Today we will hear from the administration witnesses and sponsors of the two bills before the committee.

First, we will hear from the Honorable Senators Schmitt of New Mexico and DeConcini of Arizona for remarks on bills S. 1982 and S. 2429. They will be followed by the administration witnesses—Maj. Gen. Bennett L. Lewis, the Executive Deputy Director of the Federal Emergency Management Agency [FEMA] which is responsible for overall stockpile policy issues and planning; and Mr. Carroll Jones, Acting Commissioner of Federal Property Resources Service for the General Services Administration.

At the conclusion of their remarks we will empanel the administration witnesses for a question-and-answer exercise for the record.

There will be an additional hearing tomorrow at 10 a.m., to hear testimony from various industry witnesses in regard to the national defense stockpile.

As you know, section 788 of the fiscal year 1982 Department of Defense Appropriations Act suspended the sale of silver from the stockpile and required that the President, not later than July 1, 1982, determine that the silver authorized for sale is in excess of stockpile requirements.

Additionally, section 788 outlined certain factors to be considered in the President's decision. While that deadline has not yet passed, we will nevertheless ask for the views of FEMA and GSA on the sale of silver and the GAO report on national defense related silver needs.

We will begin in open session and I would expect we can conduct most of the hearing in open session. We may at some point need to discuss classified matters and we will then go into closed session.

We are pleased to have with us this morning the author of S. 1982, Senator Schmitt, who will enlighten us as to the virtues of this hallmark or landmark piece of legislation.

STATEMENT OF HON. HARRISON SCHMITT, A U.S. SENATOR FROM THE STATE OF NEW MEXICO

Senator SCHMITT. Thank you, sir.

Hallmark, landmark—I hope it deserves both of those accolades.

Senator HUMPHREY. I am not taking a position. I am just being courteous. [Laughter.]

Senator SCHMITT. I have taken a position and I think it is both, Mr. Chairman.

Senator HUMPHREY. Incidentally, not to delay you for I know you are in a hurry, but the administration claims that the Commission you propose would resemble the Federal Reserve Board; is that true?

Senator SCHMITT. It would have some attributes of the Federal Reserve Board, all the positive attributes and none of the negatives, Mr. Chairman.

Senator HUMPHREY. That relieves me greatly. You are free to proceed as you wish.

Senator SCHMITT. Mr. Chairman, I want to express my appreciation to you for scheduling these hearings on S. 1982, the Strategic Stockpile Reform Act. This legislation was first introduced on December 16, 1981. Since that time I have received a substantial number of helpful comments and suggestions on the bill. Many of these have been incorporated into a revised version of the bill which will be introduced in the near future and could be used to amend in the markup of this committee.

A copy of the changes I am considering has been provided to the committee.

Thus, Mr. Chairman, I would hope that the revised version of the bill will resolve many of the technical issues associated with the creation of a Strategic Stockpile Coommission. I will not address these details at this time, but instead will focus on the general proposition that the stockpile management is greatly in need of reorganization.

The Strategic Stockpile Reform Act would substantially reform the manner in which our national defense stockpile is managed. The legislation would consolidate the stockpile-related functions of the General Services Administration and the Federal Emergency Management Agency into a Strategic Stockpile Commission. This improved structure for the implementation of the Strategic and Critical Materials Stockpiling Act will insure that the important improvements which have been made in this act in recent years can be efficiently and effectively administered.

Let me review for a moment the need for this legislation.

The national defense stockpile exists to insure that our country can continue to have vital defense materials in times of national emergency. We could almost think of it as our national survival pack of strategic materials.

But our stockpile is in trouble. Shortsighted political consideration have frequently taken priority over strategic issues in the setting of our stockpile goals. Past administrations have sometimes seen the stockpile as a sort of checking account, to be tapped whenever we needed to raise money to balance the budget or fund a new program. As a result it is estimated that the stockpile is some $14 billion short of achieving current goals.

A recent report issued by the Senate Republic Policy Committee concludes that:

> If no purchases or sales from the stockpile had been made between 1962 and 1981, we would be much closer to the present goals than we are after all the changing of stockpile goals during this period.

This conclusion suggests, I believe, that the present system of management has actually been counterproductive.

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We appear to move further away from our goals as time goes by. I am not aware of any more devastating indictment of the current method of stockpile management than the simple fact that the activities of the past 20 years have made our country more dependent and more vulnerable to supply interruptions of strategic materials. This record of mismanagement is nothing less than a national disgrace, and an embarrassment to the Government. In addition, Mr. Chairman, it cost $14 billion to get to the adverse position that we are in today.

The Federal Emergency Management Agency [FEMA] estimates that had the status quo of 1962 been maintained, the cost of achieving current stockpile goals would have been minimal and there would be valuable surpluses of high-value commodities such as copper, aluminum, zinc, cobalt, nickel, and lead.

I would request the Republican Policy Committee report, "National Defense Stockpile Inventory of Strategic and Critical Materials, 1962–1980 Comparison," be reprinted in the record following my statement.

I will summarize and ask that my entire statement be printed as submitted.

Senator HUMPHREY. Yes.

Senator SCHMITT. Some of the general problems in the current management of our national stockpile are the following:

First, stockpile goals have been changed frequently in the past but not always consistently. For example, at one time stockpile goals for aluminum, copper, lead, nickel, and zinc were set at zero. During the period of 1963 through 1975 all of the stockpiled alumnium, copper, and nickel was sold, as was most of the zinc and about half of the lead. New stockpile goals for these materials will require their purchase at current market prices which are far higher than the prices at which these commodities were sold.

Second, the stockpile has frequently been manipulated for nondefense political purposes, contrary to the statutory requirement that directs otherwise. The initiatives of the Nixon administration to sell off a major portion of the stockpile, presumably to generate revenue to reduce Federal budget deficits, are a case in point.

The current administration's recommendation to sell $2.14 billion worth of stockpiled materials, but to purchase only $60 million worth of new materials for the stockpile, hardly inspires confidence that the stockpile is not still being used for budgetary purposes.

Third, the storage and handling of some stockpiled materials has been less than satisfactory; poor security may have resulted in theft; weighing of materials prior to sale may have been inaccurate; material has been allowed to deteriorate or become obsolete; and billing for sold materials has been faulty.

Fourth, the fact that funds derived from past sales of stockpiled materials have gone into the Treasury's general fund rather than being used to purchase needed materials for the stockpile has seriously depleted the assets of the stockpile.

In my testimony we look at a number of commodities and give the committee a history of each of those commodities during this period of time.

What is the essential message of this litany of stockpile management inefficiencies? It is this: This number and extent to which a long list of materials have been mishandled suggests that structural and organi-

zational problems exist which require a fundamental change in the management structure of the strategic stockpile.

To be clear, Mr. Chairman, my criticism is not directed at FEMA and GSA, or to any individuals within those agencies. The problem lies in the structure that has been established within which the personnel of these agencies must operate.

I am persuaded that the following elements must be a part of any comprehensive solution to the problems I have discussed:

One, management of this stockpile needs to be consolidated. At present, stockpile management is fractured and disorganized. I am convinced that there are far too many players in this game for the current organizational structure to adequately meet our vital national interests. Furthermore, no one in Government has sole responsibility for the stockpile. GSA and FEMA both have very broad responsibilities in diverse areas; stockpile management is but one of their many functions, one which is frequently short-changed.

Two, management of the stockpile should be able to respond to market influences, yet the current system has months of delay built into it before a sale or purchase can be initiated. We were only recently selling silver at $8 to $9 per ounce and driving the price lower with the sales, to the detriment of our domestic producers.

Where was GSA when the price of silver peaked at $50 per ounce? They were not in the market. They could not have been; it would take months to get approval from the executive branch and the Congress.

Three, materials in stockpile may need to be rotated from time to time to insure that they meet current industry specifications. This practice has not been taking place. Such a routine rotation of stockpiled materials should not require congressional or executive branch involvement and the accompanying delay as it does under current law.

Four, management of sales and purchases should at times be conducted quietly so as to not to disrupt the market or telegraph our intentions. Yet, by virtue of the fact that stockpile purchases and sales must be congressionally authorized, the whole world has an idea of what the managers of the stockpile will be doing, and they can act accordingly.

To some extent, stockpile sales and purchases provide an opportunity for speculators and producers, foreign and domestic alike, to profit from the unreasonable and unworkable system we have constructed.

Five, management of the stockpile should be removed to the maximum extent from political or budgetary considerations. The purpose of the stockpile is to provide a degree of protection to our country in time of war or emergency. It was not created as a budget-balancing tool. We must restore the stockpile to its original purpose.

The establishment of a Strategic Stockpile Commission would go a long way toward solving many of our materials problems. Furthermore, it would centralize in one agency all of the participants in the management of the stockpile. There would be one voice in Government that could speak with authority on the nature and extent of materials problems. This voice is currently missing.

Further, the establishment of a Strategic Stockpile Commission would remove to the maximum extent possible the budgetary and political manipulation of our national stockpile.

The United States is currently involved in a materials war. The only problem is that as a Nation we don't know it and the Soviets do. There are many actions which must be taken to counter this threat—changes in Federal lands policy, taxes, pollution control, initiatives in deep-sea mining, et cetera, so that we can develop our own resources and attain self-sufficiency wherever we can and be in a position to limit our vulnerability to interruptions of supply wherever that is thought possible.

But there are many materials with which the United States is not endowed in abundance. Where this is the case, the stockpile is our best method of protecting our country and our economy. With certain other materials we have domestic deposits which are not currently in production but which may be in the future with advances in technology or with appropriate production incentives. In these cases the stockpile can serve a vital function in bridging us over to the day when we can become self-sufficient either through domestic supply or substitutes for critical materials.

One of our primary political problems in Washington is that the Congress is so absorbed in the immediate issues of today that there is rarely attention given to our long-term structural problems.

Minerals dependency is such a long-term problem and it requires a long-term structural solution. This legislation, I believe, can play a part in achieving that solution.

Mr. Chairman, I would add, in the revisions that we have submitted to you we include an attempt, and I think it is now only an attempt and would need to be refined, to take into account some of the concerns of Senator McClure and others that various commodities must have different approaches. I agree with that.

For example, in the area of chromium—and I am speaking somewhat as a geologist—we have no known potential for large-scale commercial production, if any production, in the United States. So, the stockpile, a 3-year goal, may actually be inadequate for chromium. We may actually want a longer term goal for that.

Another commodity of a different type is cobalt, where we have no domestic production at this time, but with certain types of incentives—such as the floor price that was used for copper during the Korean war—we could potentially become self-sufficient in cobalt and a stockpile goal would not need to be nearly as large, if any were required at all, under those kinds of circumstances.

A third category of material is that of copper. In copper we clearly have the potential to be self sufficient. We have an established—or did have until just recently, large-scale mining industry that although it did not supply all of our domestic requirements has the surge capacity to do so. So, your stockpile goal probably would not need to be a 3-year goal but would need to be relative to, say, a 1-year timeframe that it would take in order to get up to surge capacity.

I mentioned these details to illustrate to the committee how some additional refinement is going to be required in order to be truly realistic in terms of the guidelines we would need regarding Stockpile Commission. The principal role of the Commission, however, is to insure that the management of the stockpile is, in fact, guided by the national interest and not by any parochial or political interest of a particular administration.

Finally, Mr. Chairman, as you know, the bill does contain the authority for the President to assume management of the stockpile in a national emergency. Obviously, that is an important part of such a change.

I will be happy to answer any questions you may have.

[Prepared statement of Senator Schmitt follows:]

PREPARED STATEMENT OF SENATOR HARRISON SCHMITT

Mr. Chairman, I want to express my appreciation to you for scheduling these hearings on S. 1982, the Strategic Stockpile Reform Act. This legislation was first introduced on December 16, 1981. Since that time I have received a substantial number of helpful comments and suggestions on the bill. Many of these have been incorporated into a revised version of the bill which will be introduced in the near future. A copy of the changes I am considering has been provided to the committee.

Thus, Mr. Chairman, I would hope that the revised version of the bill will resolve many of the technical issues associated with the creation of a Strategic Stockpile Commission. I will not address these details at this time but instead will focus on the general proposition that the stockpile is greatly in need of reorganization.

The Strategic Stockpile Reform Act would substantially reform the manner in which our National Defense Stockpile is managed. The legislation would consolidate the stockpile related functions of the General Services Administration and the Federal Emergency Management Agency into a Strategic Stockpile Commission. This improved structure for the implementation of the Strategic and Critical Materials Stockpiling Act will insure that the important improvements which have been made in this act in recent years can be efficiently and effectively administered.

Let me review for a moment the need for this legislation.

The National Defense Stockpilt exists to insure that our country can continue to have vital defense materials in times of national emergency. We could almost think of it as our national survival pack of strategic materials.

But our stockpile is in trouble. Short-sighted political considerations have frequently taken priority over strategic issues in the setting of our stockpile goals. Past administrations have sometimes seen the stockpile as a sort of checking account to be tapped whenever we need to raise money to balance the budget or fund a new program. As a result, it is estimated that the stockpile is some $14 billion short of achieving current goals.

A recent report issued by the Senate Republican Policy Committee concluded that "if no purchases or sales from the stockpile had been made between 1962 and 1981 we would be much closer to the present goals than we are after all the changing of stockpile goals during this period." This conclusion suggests, I believe, that the present system of management has actually been counterproductive. We appear to move further away from our goals as time goes by. I am not aware of any more devastating indictment of the current method of stockpile management than the simple fact that the activities of the past twenty years have made our country more dependent and more vulnerable to supply interruptions of strategic materials. In short, Mr. Chairman, this record of mismanagement is nothing less than a national disgrace and an embarrassment to the Government.

The Federal Emergency Management Agency estimates that had the status quo of 1962 been maintained, the cost of achieving current stockpile goals would have been minimal and there would be valuable surpluses of high value commodities such as copper, aluminum, zinc, cobalt, nickel, and lead. I would request that the Republican Policy Committee Report "National Defense Stockpile Inventory of Strategic and Critical Materials, 1962–1980 Comparison," be reprinted in the record following my statement.

Some of the general problems in the current management of our national stockpile are the following:

(1) Stockpile goals have been changed frequently in the past, but not always consistently. For example, at one time stockpile goals for aluminum, copper, lead, nickel, and zinc were set at zero. During the period of 1963–1975, all of the stockpiled aluminum, copper, and nickel was sold, as was most of the zinc

and about half of the lead. New stockpile goals for these materials will require their purchase at current market prices, which are far higher than the prices at which these commodities were sold.

(2) The stockpile has frequently been manipulated for non-defense political purposes contrary to the statutory requirement that directs otherwise. The initiatives of the Nixon administration to sell off a major portion of the stockpile, presumably to generate revenue to reduce Federal budget deficits, are a case in point. The current administration's recommendation to sell 2.14 billion dollars worth of stockpiled materials, but to purchase only $60 million worth of new materials for the stockpile, hardly inspires confidence that the stockpile is not still being used for budgetary purposes.

(3) The storage and handling of some stockpiled materials has been less than satisfactory; poor security may have resulted in theft; weighing of materials prior to sale may have been inaccurate; material has been allowed to deteriorate or become obsolete; and billing for sold materials has been faulty.

(4) The fact that funds derived from past sales of stockpiled materials have gone into the Treasury's general fund, rather than being used to purchase needed materials for the stockpile, has seriously depleted the assets of the stockpile.

Let's look at how our stockpile has fared under these past policies with regard to some specific materials.

COBALT

The stockpile goal for this material was 129 million pounds in 1955 but only about 12 million pounds in 1973; consequently much cobalt—approximately 60 million pounds—was sold at prices averaging $2 to $4 a pound. Recently the Administration bought 5.2 million pounds of cobalt from Zaire for $15 a pound, with an option to purchase an additional 5.2 million pounds next year. In other words, we are paying $11–$15 per pound more for cobalt today than we sold it for only a few years ago. More consistent and realistic management of this material clearly would have save much money.

ZINC

The stockpile goal for zinc was about 1.5 million tons in 1950 but was reduced to zero in 1963. Sales have reduced the amount stockpiled to less than 400,000 tons; yet the current stockpile goal is more than 1.4 million tons.

There is a curious irony here. At the end of 1963, the stockpile contained 1,580,741 tons of zinc—slightly above the present objective. For various reasons, including the size of the domestic industry at that time, the defense authorities concluded that no stockpile of zinc was required.

Over the subsequent years more than three-quarters of the stockpile was sold—at prices averaging perhaps $300 a ton. One effect of these stockpile sales was, of course to hold the zinc price down. That, in turn, discouraged investment in modern plant and helped bring about the dramatic decline in the industry's capacity. Because the capacity is down, government has concluded that it needs a big stockpile again. And what is the price the government will have to pay for zinc? It is currently about $900 a ton—some $600 more than the price the government received for zinc sold from the stockpile.

LEAD

In 1956 the stockpile goal for lead was almost 1.2 million tons, but by 1963 the goal had been reduced to zero. Almost 1.4 million tons were still being stockpiled in 1962, but subsequent sales have reduced this amount to about 600,000 tons. Yet, the current stockpile goal for lead is about 1.1 million tons, thus requiring additional purchases.

COPPER

At one time the stockpile for copper was 3.5 million tons; this was reduced to almost 800,000 tons by 1963 and further reduced to zero by 1973. More than 1.1 million tons of copper were in the stockpile in 1962, but sales reduced the amount to 260,000 tons by 1973 and most of this had been sold by 1974. The current goal for copper is 1.0 million tons, but there is less than 30,000 tons in the stockpile. The cost to buy back the copper sold from the stockpile will be substantial, and it is a cost that could have been avoided with sound management of our resources.

SILVER

Currently there is more controversy over the management of silver than for any other stockpiled material. At present, the stockpile contains 139.5 million troy ounces of silver, where as the goal has been set at zero, largely on the grounds that adequate supplies of silver during wartime could be obtained from domestic sources and from imports from Canada and Mexico. Consequently, last year's budget act authorized the sale of 46.537 millian troy ounces as of October 1, 1981; 44.682 million troy ounces as of October 1, 1982; and 13.9 million troy ounces as of October 1, 1983. Congressional action has since put a stop to these sales.

Critics of these sales contend that, in view of the sharp changes in the stockpile goals in the past, there is no guarantee that the goal for silver may not be again, changed, thus requiring repurchase of silver, possible at much higher prices. They also note that of the $2.140 billion recommended in stockpiled materials sales, silver amounts to about $2.093 billion. Hence they suggest that the sale of silver is being promoted more for budgetary than for defense purposes. Further, the manner in which these and other sales have been conducted raises serious questions regarding GSA's ability to conduct these sales without needlessly disrupting the market.

CHROMIUM

Chromium is a vital strategic material needed for manufacturing of a wide range of essential military equipment. In light of the fact that the United States imports 91 percent of our consumption the availabiilty of chromium is a matter of great concern. Yet, 682,000 short tons of chromium have been sold from the stockpile since 1962—and the stockpile is now nearly 200,000 tons short of its goal.

These are just a few examples of the inadequacy of stockpile management with regard to a few of the vital strategic materials in our stockpile.

What is the essential message of this litany of stockpile management inefficiencies? It is this: The number, and extent to which, a long list of materials have been mishandled suggests that structural and organizational problems exist which require a fundamental change in the management structure of the strategic stockpile. To be clear, Mr. Chairman, my criticism is not directed at FEMA and GSA, or to any individuals within those agencies. The problem lies in the structure that has been established within which the personnel of these agencies must operate. I am pursuaded that the following elements must be a part of any comprehensive solution to the problems I have discussed.

Management of the stockpile needs to be consolidated. At present, stockpile management is fractured and disorganized. Sales and purchases of materials are made by the General Services Administration—but only upon the recommendation of the Federal Emergency Management Agency which collects information and recommendations from the Departments of Defense, Commerce, Interior, State and others, to establish stockpile goals. But it doesn't stop there. FEMA proposals to buy and sell materials are transmitted to OMB, where budgetary consideration may weigh in heavily on stockpile decisions. This, I believe, is the source of many of the changes in stockpile goals that have occurred in the past several administrations. All too often, goals have been manipulated downward to justify stockpile sales that would raise revenues to reduce the Federal deficit.

After OMB has taken a look at and probably revised FEMA's stockpile proposals, Congress considers the Administration's recommendation in the annual budget. Regretably, Congress has frequently gone along with the executive branch's budgetary abuse of the stockpile. Further, the Congress has, on occasion, been pursuaded by special interest groups to adopt stockpile policies which may have been helpful to particular industries, but which in the long run, create more problems for the achievement of stockpile goals.

I am convinced that there are far too many players in this game for the current organizational structure to adequately meet our vital national interests. Furthermore, no one in government has sole responsibility for the stockpile. GSA and FEMA both have very broad responsibilities in diverse areas—stockpile management is but one of their many functions; one which is frequently short changed.

Management of the stockpile should be able to respond to market influences; but the current system has months of delay built into it, before a sale or purchase can be initiated. We were only recently selling silver at $8–$9 per ounce and driving the price lower with the sales, to the detriment of our domestic producers. Where was GSA when the price of silver peaked at $50 per ounce? They weren't in the market. They couldn't have been, it would take months to get approval from the executive branch and Congress!

Materials in stockpile may need to be rotated from time to time to insure that they meet current industry specifications. My understanding is that the majority of our cobalt stockpile does not meet certain high technology uses and would require costly and time consuming reprocessing in a time of national emergency. Such a routine rotation of stockpiled materials should not require Congressional or Executive Branch involvement, and accompanying delay.

Management of sales and purchases should at times be conducted quietly so as not to disrupt the market or "telegraph" our intentions. Yet, by virtue of the fact that stockpile purchases and sales must be Congressionally authorized, the whole world has an idea of what the managers of the stockpile will be doing—and they can act accordingly. To some extent, stockpile sales and purchases provide an opportunity for speculators and producers, foreign and domestic alike, to profit from the unreasonable and unworkable system we have constructed.

Management of the stockpile should be removed to the maximum extent from political or budgetary considerations. The purpose of the stockpile is to provide a degree of protection to our country in time of war or emergency. It was not created as a budget balancing tool We must restore the stockpile to its original purpose.

The establishment of a Strategic Stockpile Commission would go a long way toward solving many of our materials problems. Furthermore, it would centralize in one agency all of the participants in the management of the stockpile. There would be one voice in government that could speak with authority on the nature and extent of materials problems. This voice is currently missing. Further, the establishment of a Strategic Stockpile Commission would remove, to the maximum extent possible, the budgetary and political manipulation of our national stockpile.

The United States is currently involved in a materials war. The only problem is, as a Nation we don't know it—and the Soviets do. There are many actions which must be taken to counter this threat—changes in Federal lands policy, taxes, pollution control, initiatives in deep sea mining, etc., so that we can develop our own resources and attain self sufficiency wherever we can.

But there are many materials with which the United States is not endowed with in abundance. Where this is the case the stockpile is our best method of protecting our country and our economy With certain other materials we have domestic deposits which are not currently in production, but which may be in the future with advances in technology or with appropriate production incentives. In these cases the stockpile can serve a vital function in bridging us over to the day when we can become self sufficient.

One of our primary political problems in Washington is that the Congress is so much absorbed in the immediate issues of today that there is rarely attention given to our long-term structural problems. Minerals dependency is such a long-term problem and it requires a long-term structural solution. This legislation, I believe can play a part in achieving that solution.

Senator HUMPHREY. Thank you, Senator Schmitt.

I want to welcome the ranking member of this committee, Senator Levin.

Except for the manipulations you alluded to a number of times and just a moment ago in summarizing; namely, the use of the stockpile—or the abuse of it, perhaps is a better word—for budgetary, economic, or parochial reasons, would there be a necessity for his proposed commission? In other words, is your sole purpose to isolate the management of the stockpile from considerations of other than strategic planning?

Senator SCHMITT. Mr. Chairman, my principal purpose is to insure that either through stockpile or through domestic production, or through the creation of long-term substitutes for strategic materials, that this country is not vulnerable to interruptions of essential supplies of strategic materials.

It is my feeling that under the current structure that has not been guaranteed and that in the process of not guaranteeing that we have seen the kinds of abuses and problems you have just referred to.

The Commission would provide a strong voice and a coordinating voice, and a voice with some authority within the Federal Government to insure that the basic underlying goals of a stockpile and of the Defense Production Act and of certain research and development activities could be undertaken. That, I think, is the essential reason for a much greater focus for stockpile management than we have had up until now.

Senator HUMPHREY. I am not sure that I got to the matter I am curious about. Is your only dissatisfaction with the status quo the manipulation of the stockpile for budgetary reasons?

Senator SCHMITT. If past administrations had not looked at the stockpile as a budgetary resource or a political resource or an economic resource, then I would not have a problem. Had that not happened, presumably, and had the goals for the stockpile been objectively monitored and maintained and revised as commonsense would dictate, yes, I would not be here today. But, unfortunately, what I think I have just described is contrary to the human nature of a political operation and that is what administrations and Congresses are, and there are some aspects of the Federal Government's responsibilities that are so critical to our survival and to the health of our national economy that they need to be modestly—and I underline "modestly"—insulated from the political world. They will never be fully insulated.

As we know, the Federal Reserve System is supposed to be an independent system to maintain the health of our monetary system, independent of political considerations in that process. It is obviously not. The Federal Reserve System has from administration to administration been relatively independent but not totally independent of political activities. If it had been totally independent of political activity, then Arthur Burns, years ago, would have been successful in maintaining a reasonable rate of growth of the money supply and we probably would never have faced the double-digit inflation that eventually we did.

Senator HUMPHREY. Naturally, the Commission would require certain expertise to advise it. Do you envision the transfer of people from FEMA to the Commission staff? What do you have in mind?

Senator SCHMITT. I would think that that is something that clearly would happen, that those people within FEMA and GSA who have this responsibility, as well as may a few in the DOD and other agencies with areas of expertise, would form the core of the staff for the Commission. Clearly, they would need that kind of expertise and there would be no reason, with the establishment of the Commission, for FEMA or GSA or DOD to duplicate.

I want to make it very clear that I think the Commission should have—and we provide for this statutorily—the advice and consultation necessary with the Department of Defense and other agencies of government, but I would like the Commission to be relatively independent in how they exercise their judgments based on that advice and consultation.

Senator HUMPHREY. Some will be concerned about the withdrawal from Congress of the authority to authorize and appropriate in this regard. How do you address that concern?

Senator SCHMITT. The Congress is never fully withdrawn. If the Stockpile Commission does not operate under the intent that Congress

has set with the passage of this legislation or however modified, then the Congress clearly can step in and change that situation. The guidelines that we should provide and work out for the Commission should be such as to prevent any massive errors being made by the Commission that would undercut particular economic sectors of our domestic economy. I am not at all adverse to working out those kinds of guidelines, but it is important to give the Commission some latitude for internal management of the stockpile so long as that internal management does not significantly affect other aspects of the domestic economy. Those guidelines, I think, can be established quite clearly in law.

Let me also mention that so long as Congress has full and direct line authority over the stockpile it will be impossible to insulate it from political and other extraneous considerations. As you know, this administration for fiscal year 1982 made a $120 million request for stockpile purchases and that was cut by Congress to $57 million. Part of the reason, I think, was that there was really no agency, no focus to the establishment of the administration's position before the Congress.

Right now, Mr. Chairman, I would mention another example—and I alluded to it earlier—and that is the situation that faces us in copper.

The copper industry, in part because of a depressed world market for copper, in part because of the recession that we are currently experiencing in this country and worldwide, is in serious trouble. Mines and mills and refineries are closing and have closed throughout this country. There is a problem abroad, in that some countries look at their copper industry as a way of obtaining cash flow, whether or not that meets the cost of production. That obviously is not something that can be done in this country under our free enterprise system.

The stockpile goal for copper is only being met to a level of 2.8 percent. We essentially have no copper in the stockpile, even though the goal, the 3-year goal, is quite high. I am not going to say we need a 3-year capacity in copper. We need enough capacity that we could surge to adequate production in case of a national emergency.

However, we do have a surplus of tin and that tin has been sold recently for various revenues. The administration currently has no authority to use the funds obtained from tin sales to purchase copper in order to support the domestic copper industry. Thereby preparing it not only for economic recovery but also to meet the defense demands that are coming down the line.

In the current situation I think it is safe to forecast that as those demands arise, the price will rise very rapidly and it will be foreign producers that benefit from that situation and not the domestic copper industry.

Senator HUMPHREY. You have been critical of the failure to maintain quality standards and to maintain the stockpiles in good condition—I have forgotten the words you used—but to turn them over. How could this be avoided? How do you propose to address this in your proposal?

Senator SCHMITT. The most important thing would be to have a management system to provide for the rotation of the stocks so that you can have a high quality, or the current demanded quality, of material in the stockpile.

Cobalt is a good example. We do have cobalt in the stockpile but the estimates I have received are that it is significantly below the specifications that are currently demanded for most applications of cobalt. Cobalt ought to be rotated. We ought to find ways in which that can be done.

I also understand the same applies to chrome in the stockpile. It is significantly low standard for industrial use.

Senator HUMPHREY. Apart from your proposal for a commission, it seems that on the basis of testimony we have heard so far that this area bears looking into. In any case, if these suggestions are accurate, then that certainly bears further looking into apart from your Commission proposal. How many people would this involve? If we switch over to your proposal, is this going to involve more personnel? Have you looked into that angle?

Senator SCHMITT. I have not specifically, Mr. Chairman. I hope in the course of the hearings we can develop that. It would be my impression, however, since we are dealing with an inadequate situation now, that there may be an overall increase in staff for the management of the stockpile. However, it is hard to say because when you are dealing with an inadequate management system in which it is only a part-time task for each of the agencies involved and most of the personnel involved, it is very difficult to say what is the current level of effort within the Federal Government.

By focusing and centralizing and by beginning that process, we will start to find out the answer to that question.

Senator HUMPHREY. One last question: You and others have likewise suggested a price war for cobalt, for instance, would apparently take a floor of $25 to $28 per pound to justify opening mines in Missouri and Idaho when at the same time we can obtain that material more cheaply from Zaire. Why should we put a floor under these things; why should the taxpayers bear this burden if we can buy it more cheaply elsewhere?

Senator SCHMITT. No. 1, Mr. Chairman, Zaire is a politically unstable portion of the world. We have seen at various times in the recent past an interruption of supply of cobalt and price manipulation of cobalt. Those are the kinds of vulnerabilities and costs that the American taxpayers should not have to pay. Indirectly, the taxpayer or consumer pays those costs.

Second, I think we have to realize that if we have made the public decision that it is in the public interest to have a cobalt stockpile, then you have to trade off the size of that stockpile, the cost of maintaining that size or establishing that stockpile, against the cost of creating a domestic production capacity. That is a very real trade-off.

By establishing a floor price—and I am, by the way, still unsure about this particular issue—but if, for example, you establish a floor price that would maintain a production level necessary to meet most of our national needs, that can well be cheaper than buying cobalt on the world market in order to have a stockpile sufficient to meet our national needs.

One example is what happened again with copper in the Korean war period, where the Defense Production Act was used to establish a floor price for copper. As I recall, there was something like $8 billion or $9 billion in copper produced at a cost to the Government of $1 bil-

lion. Now, that is an 8 or 9 to 1 ratio. That is not too bad at all. Had you had to buy that copper abroad, assuming you could have gotten it, or to establish a stockpile to meet that kind of level of need for the Korean war, clearly it would have been more expensive than the establishment of a floor price.

Mr. Chairman, there are examples, as I remember, and certainly in theory it is true, that the establishment of a floor price may or may not result in a direct cost or any cost to the Government. If properly selected, a floor price just might lower the risk of investment to the point of where that investment can be made without the Government ever having to pay the floor price.

Senator HUMPHREY. Thank you very much Senator Schmitt.

Senator Levin?

Senator LEVIN. Senator Schmitt, let me join Senator Humphrey in welcoming you to the committee.

You have identified a concern, and I share that concern with you, over how we add and subtract from our stockpile, and I commend you for your efforts in that direction.

Senator SCHMITT. Your home State is one which is probably most vulnerable to interruptions of certain critical materials in terms of employment. I realize that employment is of concern to you and maybe unemployment is of more concern.

Senator LEVIN. It is only 16 percent this month. It is a less concern than last month, for reasons we can understand; it was 17 percent. The depression would seem to be over if you believe those statistics.

In any event, I just want to ask you a few questions about your approach to a problem which you have identified, which is a serious problem, I believe: the stockpile.

First of all, you said we ought to isolate the purchases from the political process a little more in order to avoid political pressure being used in terms of when we buy and sell and what we buy and sell. Why would we trust the political process more when it comes to buying and selling aircraft carriers or where we locate the MX missiles than we do for when we purchase or sell items for the stockpile?

Senator SCHMITT. I think, Senator Levin, that we do that because that is the finished product; that is, the creation of a carrier or aircraft purchasing plan is a political decision; it is a decision that says we need this to accomplish a particular national objective. The stockpile represents the raw material that gives us a number of options to conduct public policy.

Without an adequate stockpile then we do not have those options. I look at the stockpile literally as being like the money supply. Whatever that money supply may be and how well it is managed determines what national economic options we have. The same goes for the basic raw supply of various commodities.

Senator LEVIN. Is your answer then that is a more important decision than whether or not we build the MX missiles out west?

Senator SCHMITT. No; I don't think it is more important I think it is a different class of decision. It is a decision that establishes a national capability. A Stockpile Commission, for example, does not make a decision and should not make a decision on what we use the stockpile for. It is just a decision on whether there is an adequate stockpile from which public policy can be made.

Senator LEVIN. Second, under your proposal would Congress still appropriate and authorize money above and beyond the revolving fund, assuming we use up the money in the revolving fund?

Senator SCHMITT. Yes.

Senator LEVIN. Would the appropriation and authorization identify what we would be buying?

Senator SCHMITT. Well, that is something we don't specifically say in the bill. It is something that we certainly could talk about. We would expect that the revolving fund would be operated independently of the Congress insofar as anything is independent of the Congress. But if additional funds were required they would have to be at the request of the Congress, and obviously the Commission in making that request would have to justify it.

Senator LEVIN. Should the requests for additional funds identify the purpose of the funds?

Senator SCHMITT. No; but I am sure that the Congress would insist on knowing the purpose of it. I would, and I am on the Appropriations Committee. If I sat there and had to look at the request for $1 billion to go into the revolving fund, the first question I would ask is, What do you need it for? Why is the revolving fund inadequate?

I am not sure that it would be appropriate to earmark, but certainly the Commission would have to develop their argument on the basis of the real world and not on the basis of where we would like $1 billion to play with. I would say that knowing the Appropriations Committee though, there would probably be some who would try to earmark and it might turn out that would be the case. That is certainly an option that is open to the Congress. I am not sure that I would recommend it, but it would depend on the individual circumstances.

Senator LEVIN. As I understand the way the matter is handled in the 1983 budget, there is a sale projected of $350 million or so and purchases of $120 million or so, which would leave a net of $230 million roughly in that revolving fund.

Are you familiar with the specifics in the 1983 budget?

Senator SCHMITT. I am not that familiar, Mr. Chairman. I am familiar with those numbers.

Senator LEVIN. We have what we would call a surplus in 1983 of $230 million. Whether or not you are familiar with the specifics, just assuming that for the sake of discussion for the moment, we have a shortfall in a number of items. As a matter of fact, we have identified about $10 billion, as I understand it, of shortfall for the revolving fund. Copper is just one. As you point out in your testimony, we have something like 3 percent of the necessary copper in the stockpile. Are you saying that the decision not to utilize that surplus is driven by budget constraints in the 1983 budget? Is that what you are saying?

Senator SCHMITT. This is my strong feeling, Senator, remembering that of course any purchases must be authorized and appropriated for by Congress, whatever the sales may be and whatever the size of the revolving fund.

Senator LEVIN. Is it your understanding that that $230 million more or less can be used or is being used to reduce the deficit?

Senator SCHMITT. I think in a paper accounting way, obviously it appears on the asset side of the ledger.

Senator LEVIN. Is it your understanding that under the 1979 act that it is proper to use that $230 million to reduce the deficit?

Senator SCHMITT. I do not think it is proper. Although I don't think there is any legal restriction on its use that way. In effect, as I understand it, the so-called revolving fund is only a paper fund and it is an interest-free loan to the Treasury.

Senator LEVIN. I happen to agree with you. What we have done is have a net figure in this budget which we are using to reduce the deficit. I think it violates the spirit of the 1979 act.

At the same time, we have $10 billion in unmet needs that it is required by law to be spent for.

Senator SCHMITT. So long as the Congress approves that expenditure, and we have had some political problems over here, Senator, as you well know, in getting the Congress to approve the expenditure and in taking on restrictions on sales, particularly with respect to silver.

Senator LEVIN. The law, as I read it, requires that it be spent for nothing else. We are in effect using it to reduce the deficit, although it is a paper reduction. We have a huge deficit, $110 billion-plus, and that deficit should really be $110 billion-plus the $230 million which is shown as a budget deficit reducer, but which properly cannot be used to reduce the deficit and must be spent on the strategic stockpile, where there is $10 billion in unmet needs. Would you generally agree?

Senator SCHMITT. I generally agree with your analysis. The only thing that I would add in very weak defense of the administration is that the Congress has not approved the expenditure of that money. I guess it is OK so long as it is identified when putting it on the asset side of the ledger. In fact, it probably should be considered unexpendable money.

Senator LEVIN. I was not intending to be critical of the administration. We have the responsibility, too, as the Congress. I am not singling out the administration. The administration is no different from other administrations in some respects. In other respects it is very different. In this respect it is no different from other administrations in utilizing this money for purposes other than for stockpile acquisition.

I generally agree with your concerns. I don't know that the solution you propose is one that I share yet, but I must say I am concerned about the political decisions on the stockpile purchases and use of money, which cannot be spent for any other purpose but stockpile acquisition; to reduce the deficit by $230 million, it seems to me, is a really hokey transaction.

Senator SCHMITT. The Senator can look into the history of silver sales and see that silver sales have clearly been used for budgetary purposes. I will also say that the absence of a centralized advocacy and focus for good stockpile management and for the stockpile goals and the proper use of the revolving fund is one of the reasons that we are in the position we are today.

Now, the committee may decide that the Commission approach is not the right approach. I have looked at a variety of approaches and have personally come to the conclusion that that is the best way to handle it.

Whatever we do, we need a centralized focus and advocacy for proper management of the stockpile.

Senator LEVIN. I want to thank you again for the concern you have shown for a very important subject.

Senator SCHMITT. Thank you.

Senator HUMPHREY. Thank you, Senator Schmitt. As the administration witnesses critique your proposal, I think other questions will arise. We would like to submit them to you in writing.

Senator SCHMITT. I will be happy to respond. If I may listen for a few moments, I would like to do so.

Senator HUMPHREY. Be our guest.

We are privileged now to have with us Senator DeConcini, who will be making his presentation on S. 2429.

Senator Deconcini, good morning.

STATEMENT OF HON. DENNIS DeCONCINI, A U.S. SENATOR FROM THE STATE OF ARIZONA

Senator DECONCINI. Good morning, Mr. Chairman and Senator Levin.

I would like to express my appreciation for holding hearings so quickly on S. 2429, the bill I introduced just last month. In addition, I would like to thank you for including S. 1982, Senator Schmitt's legislation—which I cosponsored—and other stockpile-related bills.

I believe we need a broader range of criteria for the buying and selling of critical materials. The depth of the current recession demonstrates the need to allow the Government some flexibility in establishing national defense priorities.

Mr. Chairman, when I introduced the bill I did so in the face of disastrous economic conditions and the possible collapse of this Nation's copper mining industry. Unfortunately, those conditions have only worsened in the past few weeks and the chances for recovery are dismal in the near term. Until we have susbtantial recovery in the automobile and housing industries, a rebound in copper is not likely.

What this bill is intended to do is amend the Stock Pile Act and direct the GSA Administrator to purchase approximately one-quarter of a million tons of copper. The funds would come from the moneys already in the existing transaction fund; no additional sales of stockpile materials will be necessary.

Also, the $120 million the administration has requested for stockpile priorities would not be touched. We are simply looking at the additional $150 to $180 million which will be in the fund and which, by law, can be used only to purchase stockpile materials.

I know the major criticism of this bill is that I am trying to help out the copper industry. Well, that is true. I am trying to help out the copper industry and I do so without apology. The point is, when we say "industry" we are not talking about the various corporate entities, we are talking about people.

Over 8,600 copper workers are out of work in Arizona alone, thousands more in New Mexico and other Western States. Many thousands are on reduced work schedules and may soon be out of work altogether. Thousands of families simply have no income and the resulting shockwaves travel through our communities with disastrous multiplier effects.

But as badly as we need to consider some action to allow workers to go back to work, I must emphasize that this is not a bail-out bill for

the West or for the copper industry. Ironically, what is bad for the copper industry—in the limited sense of purchase price—is good for the stockpile. We have a long-established stockpile goal of 1 million tons of copper but we have less than 30,000 tons on hand. Copper is now selling at about 72 cents a pound. Adjusted for inflation, this is the lowest price for copper since the Depression.

In plain language, this is a good time to buy copper. It is a good bargain. With the money already in the fund, we could purchase between 200,000 to 225,000 short tons of copper. This bill requires that the purchases be made from domestic producers, and that is very important, for obvious reasons.

The first quarter-million tons will go a long way toward meeting our stockpile goal and will probably raise the purchase price of copper to at least the break-even point. Of course, for defense purposes we must purchase the additional amount to meet the stockpile goal of 1 million tons. We can do this without burden on the American taxpayer by shifting moneys if necessary to the fund from other accounts—foreign assistance, in my recommendation.

In this regard, Mr. Chairman, I would also recommend to the committee that it ask GAO to undertake a study of how much financial assistance we provide to countries which, in turn, subsidize their own copper industries to compete with U.S. companies. We could expand that study to include all domestically produced commodities for which there is a national stockpile goal. I would include not only minerals but also other commodities such as rubber.

Mr. Chairman, as I said in my introductory statement, it is in the Nation's interest to operate the stockpile, to buy and sell commodities, in an economical responsible manner. Economic health is no small part of national security and is totally compatible with military access to strategic materials.

Thank you, Mr. Chairman.

Senator HUMPHREY. Thank you, Senator DeConcini.

Apparently your bill would eliminate the requirement that the funds for this purchase be appropriated by Congress; is that correct?

Senator DECONCINI. For the first roughly 225,000 tons of copper, that would be correct. It would direct GSA to make that purchase. For any further purchases it would still have to be appropriated or reprogramed money approved by Congress.

Senator HUMPHREY. Why do you feel it is necessary to take that approach?

Senator DECONCINI. In my opinion, Mr. Chairman, the history of past administrations as it relates to the stockpile, as I overheard some of the discussion here by you and Senator Levin and Senator Schmitt, is that it has in fact been used for budgetary reasons. That is no finger-pointing at any particular administration; it is just a fact. It started back in the early 1970's. It seems to me that that violates Public Law 96–41 and it is important for us to take a very firm policy decision matter into the hands of the Congress and direct them to do something with this.

That is why I have introduced this legislation, that at least $200, or $150 to $180 million in the fund above what the administration wants, of $120 million for 1983 purchases, should go toward copper.

I have no reluctance to vote in appropriations to fill this stockpile for copper and other metals in which we have a shortfall in our stra-

tegic stockpile, so I don't think it is at all contrary to what Congress ought to be doing in directing the GSA, the administration, to purchase.

Senator HUMPHREY. You mention that there has been some political manipulation of the stockpile over the years—there is no doubt about that—contrary to law. But there is also a law with respect to the stockpile that prohibits its use for economic or parochial interests.

I realize that the price of copper is at a historical low in real terms. At the same time, the charge might be, certainly not by your colleague but by someone, that this proposed transaction is for parochial purposes?

Senator DECONCINI. Mr. Chairman, let me say that my statement is very clear, yes, it would help the industry, no question about it. My State is affected as much as any State, but commonsense tells us that if we are realistic about a copper stockpile or a strategic stockpile, why should not the taxpayer and the national security both achieve something when the price is down? The price is down.

I introduced this legislation back in 1977. The price was down. I introduced the legislation in the last Congress. The price was up. It could not even get hearings, I suspect, primarily because of the economic price of copper and somewhat of a perceived shortage of copper in the world. That is not the case now. That is why I appeal to this committee that commonsense, to me, dictates this for our national security and for the taxpayers, but I don't want to sweep away at all the fact—and I am glad the chairman brought it out—that, yes, it would assist the copper industry and help put Americans to work. But that is not the primary purpose of it.

Senator HUMPHREY. That is just coincidental, a happy coincidence?

Senator DECONCINI. Yes; it is not only coincidental, it is a direct factor that would play into the economic well-being of the American workers as well. That is why it seems to me the perfect time to do this.

Senator HUMPHREY. I understand.

Senator Levin?

Senator LEVIN. Senator DeConcini, let me congratulate you on your efforts, not only on behalf of your State's economy but also totally consistent with the goal which has been established by FEMA, which is 1 million tons in the stockpile. You did not set that goal, did you?

Senator DECONCINI. I did not.

Senator LEVIN. That is a goal which has been established by FEMA. They have 30,000 tons, 3 percent of the national goal. That is a strategic goal which you did not set, which FEMA set, and the desire to meet that goal out of funds that can be used for nothing else but stockpile purposes, it seems to me, is totally consistent with the national interests, as well as the economy of the United States, not only in the West but also in my own State which also produces copper.

The chairman says he would never have guessed. You know, I feel like you do on this. We didn't set the goal. I don't know if that goal is correct or not. We entrusted that to FEMA. If that goal is too high, maybe we ought to reduce it. If that is our national strategic goal, I don't think anybody ought to be sensitive, coming from a copper-producing State, about saying if we have funds available, which we do, which cannot be spent for any other purpose but stockpile purposes, and if you have a goal totally unmet, only 3 percent on this particular item, there are other items that are also unmet—for hea-

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ven's sake, why aren't we spending available funds to meet that strategic need when they are not allowed to be spent for anything else?

As a matter of fact, it may give a false impression in terms of the budget by having them sit there unmet because we are reducing the deficit in a way which is very, very phony and artificial. It is just a paper reduction because it can never be spent for deficit reduction; it can be spent, according to law, only for strategic materials acquisition.

I think you have eloquently stated the case for meeting strategic needs, whether it is copper or other items that we are in shortfall and we ought to be spending these available funds for that purpose.

I just want to commend you on the strength of your position.

Senator DECONCINI. Mr. Chairman and Senator Levin, I thank you for your understanding of the political reality of the stockpile and realizing that these funds are sitting there; they can't be used anyplace else. I want the committee to say, "Hey, make a good buy when the market is down." In my opinion, we should have bought it when the market was up. If our strategic stockpile is correct, if this is important for our national security, we ought to pay the price; but certainly we ought to save the taxpayer some money and do it when the price is at 72 cents a pound.

Senator LEVIN. I do think that the chairman is correct, and I think everyone else has said the same thing this morning—we should not be spending money for political purposes; we ought to be spending this money where it is most needed, strategically. There are other strategic needs besides copper.

I think the chairman is correct—and I totally support the chairman—that we obviously want to make these decisions based on strategic need and not on political need. That is also the purpose of Senator Schmitt's bill. As a matter of fact, that is the heart of it. We are all in agreement on it.

Senator HUMPHREY. The Senator from Michigan is correct; we have other strategic needs which are not being met. One that is very crying is the need to establish a strategic reserve of granite.

[Laughter.]

Senator SCHMITT. There are a few granite quarries in New Mexico and Arizona. They are just not good for buildings.

Mr. Chairman, I commend Senator DeConcini for this effort. I think it underlines and italicizes the need for some focus like a commission, because had we had in place a commission that was meeting the guidelines that my bill sets and living within the intent of Congress 2 or 3 years ago when the price of copper was down, that would have been the time when I would have expected the commission to fill up the stockpile with copper. Today, it still needs to be done. The price is down; it coincides with the needs of the domestic copper industry. Had it been done 2 or 3 years ago, then I think Senator DeConcini and I might have been in here arguing the need for some support of the commercial copper industry in order to be ready for recovery and for defense needs that are coming along and not have to go either into the stockpile or to foreign purchases for it.

I might also mention that under a commission we would have sold silver. Currently, the stockpile goal—I think erroneously, but that is another issue—the current for silver is zero, as I recall. People have tried to sell silver at $7 an ounce when they should have sold it when it

was $70 an ounce. Those kinds of decisions just can't be made with the present management infrastructure that we have established, which includes the Congress.

Senator HUMPHREY. Thank you very much, Senator.

Senator DECONCINI. Thank you, Mr. Chairman. I am deeply appreciative of the committee's time and the time you have given me this morning.

Senator HUMPHREY. It is our pleasure. We may wish to submit some questions to you in writing, if we may.

Senator DECONCINI. I will be more than happy to answer them.

Senator HUMPHREY. Thank you.

We will now call the Government witnesses, both GSA and FEMA, if they will come forward. Maj. Gen. Bennett L. Lewis, Executive Deputy Director, Federal Emergency Management Agency; and Mr. Carroll Jones, Acting Commissioner, Federal Property Resources Service of the General Service Administration.

STATEMENT OF MAJ. GEN. BENNETT L. LEWIS, EXECUTIVE DEPUTY DIRECTOR, FEDERAL EMERGENCY MANAGEMENT AGENCY; ACCOMPANIED BY PAUL K. KRUEGER, ASSISTANT ASSOCIATE DIRECTOR FOR RESOURCES PREPAREDNESS, FEMA

General LEWIS. Mr. Chairman and members of the committee, thank you for this opportunity to discuss the national defense stockpile and proposed legislation related to the stockpile. I am accompanied today by Mr. Paul K. Krueger, who is Assistant Associate Director for Resources Preparedness in the Federal Emergency Management Agency (FEMA).

BACKGROUND—FEMA RESPONSIBILITIES

You asked me to comment on the following topics: A general overview of the stockpile, including a discussion of the stockpile goals and proposed purchases; comments on the General Services Administration's disposal program; the silver issue, including the General Accounting Office report and the interagency silver study; S. 1982, a bill to establish an independent Strategic Stockpile Commission in the executive branch of the Government; and S. 2429, a bill to acquire copper for the stockpile.

By way of introduction, I will begin with a brief statement on FEMA's responsibilities.

Our agency was created in 1979 to bring together key emergency preparedness functions of the Government in one location. FEMA has broad responsibilities for Government, civil, resources, and mobilization preparedness. In the area of resources preparedness we are charged with responsibilities related to the Strategic and Critical Materials Stock Piling Act, and the Defense Production Act of 1950, as amended.

To carry out these responsibilities, we are assisted by many agencies in the executive branch and several subcommittees in the Congress. For example, today we will hear from Mr. Carroll Jones, Acting Commissioner of the Federal Property Resources Service of the General Services Administration. The GSA handles all of the buying, selling, shipment, and storage of stockpile materials.

Let me mention some of the other key agencies we work with in the stockpile program and the contributions they make to that program:

The Department of Defense provides the basic war scenario expenditures patterns, estimates of shipping losses, and identifies extraordinary requirements for specific materials.

The Department of the Interior provides estimates of supply for strategic and critical minerals and metals.

The Department of State provides economic and political reliability estimates for foreign suppliers and consults with foreign producers.

The Department of Agriculture cooperates by providing surplus agricultural materials to barter for stockpile materials.

The Department of Transportation keeps us informed of the availability of domestic shipping capabilities.

The Department of Commerce provides data on consumption of materials and supplies of nonminerals: New technology trends in industries; available manufacturing capabilities; and recommendations on the quality of materials to be purchased.

Other inputs are provided by the Treasury Department, the Department of Energy, the Central Intelligence Agency, and the Office of Management and Budget.

We are responsible for establishing stockpile goals and for providing direction and guidance to fulfill these stockpile goals.

VALUE OF STOCKPILE GOALS

As of April 30, 1982, the stockpile goals represent materials valued at $17.5 billion. We have materials valued at $11 billion in the stockpile inventory. Of this $11 billion, about $3.7 billion represents materials excess to the stockpile goals and $7.3 billion that can be charged to stockpile goals.

Thus, we need $10.2 billion worth of materials to satisfy our national defense needs.

Offsetting these outlays are receipts that will be derived from the sale of the $3.7 billion worth of materials excess to stockpile needs.

The current set of stockpile goals was established on May 2, 1980. We are recalculating stockpile goals based on current Defense guidance. The new goals will also incorporate new supply, consumption, and political and economic reliability data provided by other executive branch agencies. The estimates should be completed by the end of the year.

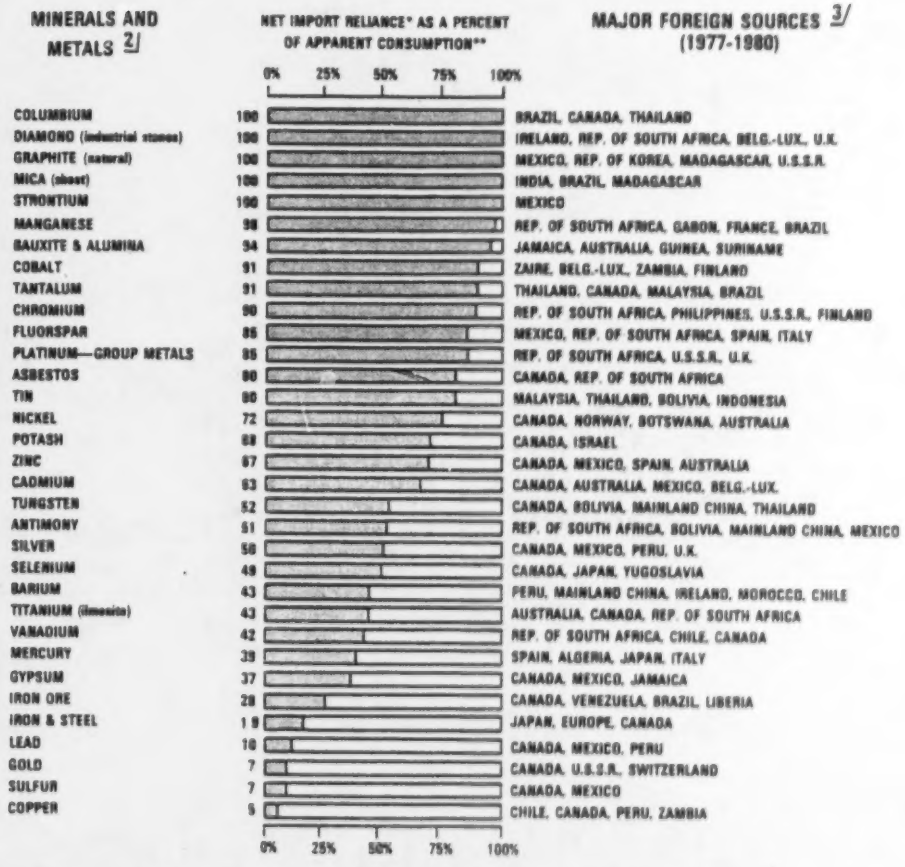
We anticipate that the materials previously designated as high priority for the acquisition will remain so. These include cobalt, columbium, platinum, natural rubber, titanium, tantalum, and vanadium. These are all important materials in defense applications.

We are providing a diagram for the record showing the critical materials requirements of a modern jet engine and a table showing how these requirements have changed since the 1950's.

Compared to the Soviet Union, the United States is much more dependent on foreign sources for strategic and critical materials. This lack of self-sufficiency on the part of the United States, the European Economic Community and Japan is readily apparent in two charts developed by the Department of the Interior. I request that these two charts be made part of the record.

[The charts follow:]

U.S. NET IMPORT RELIANCE OF SELECTED MINERALS AND METALS AS A PERCENT OF CONSUMPTION IN 1981 [1]


MINERALS AND METALS [2]
NET IMPORT RELIANCE* AS A PERCENT OF APPARENT CONSUMPTION**
MAJOR FOREIGN SOURCES [3] (1977-1980)
0% 25% 50% 75% 100%
COLUMBIUM 100 BRAZIL, CANADA, THAILAND
DIAMOND (industrial stones) 100 IRELAND, REP. OF SOUTH AFRICA, BELG.-LUX., U.K.
GRAPHITE (natural) 100 MEXICO, REP. OF KOREA, MADAGASCAR, U.S.S.R.
MICA (sheet) 100 INDIA, BRAZIL, MADAGASCAR
STRONTIUM 100 MEXICO
MANGANESE 98 REP. OF SOUTH AFRICA, GABON, FRANCE, BRAZIL
BAUXITE & ALUMINA 94 JAMAICA, AUSTRALIA, GUINEA, SURINAME
COBALT 91 ZAIRE, BELG.-LUX., ZAMBIA, FINLAND
TANTALUM 91 THAILAND, CANADA, MALAYSIA, BRAZIL
CHROMIUM 90 REP. OF SOUTH AFRICA, PHILIPPINES, U.S.S.R., FINLAND
FLUORSPAR 85 MEXICO, REP. OF SOUTH AFRICA, SPAIN, ITALY
PLATINUM—GROUP METALS 85 REP. OF SOUTH AFRICA, U.S.S.R., U.K.
ASBESTOS 80 CANADA, REP. OF SOUTH AFRICA
TIN 80 MALAYSIA, THAILAND, BOLIVIA, INDONESIA
NICKEL 72 CANADA, NORWAY, BOTSWANA, AUSTRALIA
POTASH 69 CANADA, ISRAEL
ZINC 67 CANADA, MEXICO, SPAIN, AUSTRALIA
CADMIUM 63 CANADA, AUSTRALIA, MEXICO, BELG.-LUX.
TUNGSTEN 52 CANADA, BOLIVIA, MAINLAND CHINA, THAILAND
ANTIMONY 51 REP. OF SOUTH AFRICA, BOLIVIA, MAINLAND CHINA, MEXICO
SILVER 50 CANADA, MEXICO, PERU, U.K.
SELENIUM 49 CANADA, JAPAN, YUGOSLAVIA
BARIUM 43 PERU, MAINLAND CHINA, IRELAND, MOROCCO, CHILE
TITANIUM (ilmenite) 43 AUSTRALIA, CANADA, REP. OF SOUTH AFRICA
VANADIUM 42 REP. OF SOUTH AFRICA, CHILE, CANADA
MERCURY 39 SPAIN, ALGERIA, JAPAN, ITALY
GYPSUM 37 CANADA, MEXICO, JAMAICA
IRON ORE 28 CANADA, VENEZUELA, BRAZIL, LIBERIA
IRON & STEEL 19 JAPAN, EUROPE, CANADA
LEAD 10 CANADA, MEXICO, PERU
GOLD 7 CANADA, U.S.S.R., SWITZERLAND
SULFUR 7 CANADA, MEXICO
COPPER 5 CHILE, CANADA, PERU, ZAMBIA
0% 25% 50% 75% 100%

*NET IMPORT RELIANCE = IMPORTS-EXPORTS +ADJUSTMENTS FOR GOV'T AND INDUSTRY STOCK CHANGES.

**APPARENT CONSUMPTION = U.S. PRIMARY +SECONDARY PRODUCTION + NET IMPORT RELIANCE.

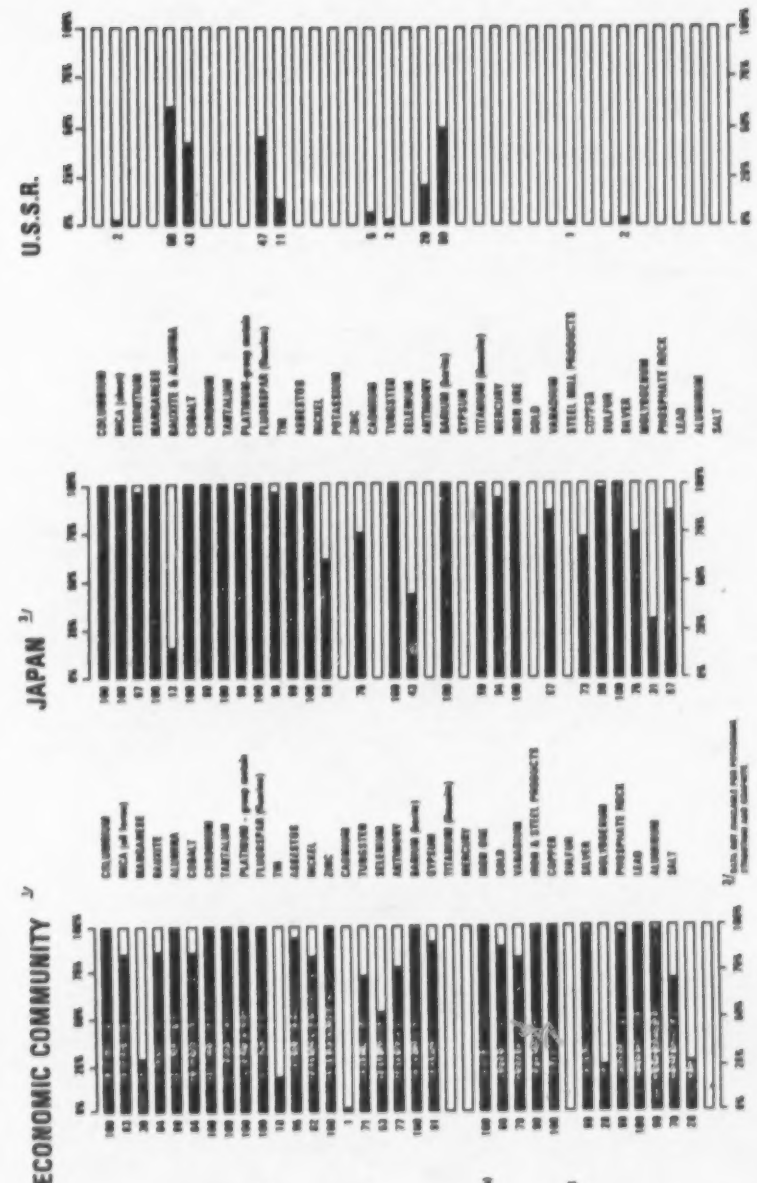
1/ JANUARY 29, 1982 (ESTIMATE).

2/ SUBSTANTIAL QUANTITIES ARE IMPORTED FOR RUTILE, RHENIUM AND ZIRCON. DATA WITHHELD TO AVOID DISCLOSING COMPANY PROPRIETARY DATA.

3/ SOURCES SHOWN ARE POINTS OF SHIPMENT TO THE U.S. AND ARE NOT NECESSARILY THE INITIAL SOURCES OF THE MATERIAL.

BUREAU OF MINES, U.S. DEPARTMENT OF THE INTERIOR
(import-export data from Bureau of the Census)

NET IMPORT RELIANCE OF SELECTED MINERALS AND METALS AS A PERCENT OF CONSUMPTION IN 1980



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PURCHASES—APPROPRIATION

On March 13, 1981, the President announced the first major purchase program for the stockpile in over 20 years. A total of $100 million was appropriated for fiscal year 1981. In addition, the President stated that larger purchases would follow as additional funds were accumulated from sales. Accordingly, $106 million was requested by the President for fiscal year 1982, but only $57.6 million was provided by the Congress under the continuing resolution.

Metallurgical-grade bauxite and iridium already have been acquired with some of these funds.

The President has requested $120 million for stockpile acquisitions in fiscal year 1983. The funds requested for fiscal year 1983 appropriations are available in the stockpile transaction account in the form of receipts from previous sales of excess stockpile materials. An authorization to use these funds has been granted by the Congress; however, before any stockpile purchases can be made from this account, an appropriation must be received from the Congress.

At the present time there is $182 million in the transaction account that will remain available until appropriated. If congressional action is favorable, we will direct the General Services Administration to make the necessary purchases.

A copy of tentative acquisition schedules for fiscal years 1983 through 1987 was transmitted to you earlier this year. The amount proposed for fiscal year 1983 is $120 million, in accordance with the President's request. The amounts proposed for fiscal years 1984 through 1987 increase from $120 million to $150 million. Although the specific materials and the intended quantities are classified for national security and market reasons, we are prepared to discuss the purchase plans in more detail in a closed session.

Sufficient revenues from existing disposal legislation should be available to cover the proposed purchases for the next 5 years.

We support the manner in which the General Services Administration has been carrying out sales of excess stockpile materials. GSA's task has not been easy. Weak markets have reduced the sales opportunities for private sector suppliers as well as the GSA. We think they have done well in avoiding market disruption.

SILVER

In December 1981, Congress suspended our silver disposal authority, pending a review by the President of the national security requirements for silver, despite the fact that we have repeatedly stated that adequate supplies of silver exist. To assist the President in his determination, we currently are reviewing the projected requirements and supplies for silver under wartime conditions. This work is almost completed but still requires the review and refinement of the Departments of Defense, Commerce, Interior and the Department of State.

Other members of the Interagency Silver Committee include the General Services Administration, the Treasury Department, the Council of Economic Advisers, the Central Intelligence Agency, the U.S. Trade Representative, the Commodity Futures Trading Commission, the International Trade Commission, and the Office of Management and Budget.

In connection with silver, we would like to comment on our response to the GAO report on silver. In the report the Comptroller General made seven recommendations to our agency. We totally concur in two of these recommendations. The two recommendations call for the consideration of factors that we normally consider in establishing stockpile goals; that is, the use of the most recent war scenario and consideration of decreasing smelting capacity.

Our basic concern stemmed from our belief that the goal-setting process for silver should be conducted under the same set of assumptions that are used for all other strategic and critical materials. We do not support other GAO recommendations that would introduce economic or political factors into the goal-setting process, believing that they are contrary to the statutory requirements in the Strategic and Critical Materials Stock Piling Act.

We submitted our formal comments on the GAO silver report on April 1, and we request that those comments be made part of the record.

S. 1982

At this time I would like to provide some brief comments on S. 1982, a bill that would create an independent Stockpiling Commission similar to the Federal Reserve Board.

The Commission would consist of five appointed Commissioners and a staff derived from the stockpiling areas in the General Services Administration and in our agency. We understand the basis for this bill. In the past there have been problems of administration and coordination in the stockpile area.

We strongly oppose this bill, for several reasons:

One, the administration has stated in the President's national materials and minerals program plan that national materials policy will be coordinated through the Cabinet Council on Natural Resources and Environment.

Two, the proposed legislation would remove over $12 billion in Federal assets from budgetary controls, both congressional and executive. We think taxpayers should have a right to expect that stockpile transactions compete with other equally important programs, especially other defense programs, for scarce Federal resources.

Three, the passage of the Strategic and Critical Materials Stock Piling Act and the establishment of FEMA, both in 1979, have gone a long way toward solving past problems. FEMA is a young agency and yet in this short time we have, for example, begun the first major purchasing program in over 20 years.

The interagency committees that assisted in this effort remained intact during the change in law and creation of FEMA. You may recall that the principal committee is the Annual Materials Plan Steering Committee. There are four subcommittees: Market Impact—Commerce, Interior, GSA, Treasury, State, and FEMA; Strategic Implications—DOD, CIA, and FEMA; Economic, and Budgetary Im- FEMA, Treasury, and OMB; International Economic and Political pact—FEMA, Treasury, and OMB; International Economic and Political Impacts—States, Treasury, Commerce, Interior, and Defense.

We have prepared a more detailed explanation of the annual materials plan process which I would like to submit for the record.

In addition, the Interagency Committee on Stockpile Purchase Specifications is also actively involved in servicing stockpile planning needs. The program is only beginning but it is working.

Does Congress want to create another bureaucracy at a time when a reduction in the Government is called for?

We must express our concern over the isolation of an independent commission removed from the mainstream of national security planning and policy formulation. This would also be true for the title III Defense Production Act program which would be transferred to the Commission.

Although the bill provides for consultation with other concerned agencies, this is not the same as being integrated into the security programs of the Department of Defense and the National Security Council and is a matter of vital importance to us.

We cannot support the economic stockpiling provisions as contained in the bill. We question whether this is a proper function of a government that relies on the market.

Another source of concern is that no provision is made for emergency releases by the President in the interest of the national defense. Although this provision has seldom been utilized, it is essential for the Commander in Chief of the Armed Forces to retain this authority.

An aspect of S. 1982 that we find beneficial is the authorization to rotate material in inventory to insure that the material is suitable for use under current industrial standards. Present law allows rotation only when necessary to prevent material deterioration; it does not take into account changing industrial technologies. We would like to see the existing laws changed to include this provision.

We are concerned about the quality of materials in the existing stockpiling inventory. In his mineral policy statement, the President pledged to "establish a panel, with appropriate private-sector input, to review the extent of material deficiencies and to recommend remedial action." FEMA has committed funds to start this action this fiscal year and is working with the National Materials Advisory Board of the National Academy of Sciences and the Federation of Materials Societies in this regard.

Our bottom line is that we cannot support enactment of S. 1982 and have so reported to this committee.

S. 2429

Finally, we want to comment on S. 2429, a bill to purchase copper for the national defense stockpile from funds available in the stockpile transactions account.

We are aware of the present difficulties of the industry; however, we do not support the bill. Section (3)(b)(1) of the Strategic and Critical Materials Stock Piling Act prohibits the use of the stockpile for economic or budgetary purposes.

For example, the national defense stockpile cannot be used to assist depressed industries. We think this is appropriate. National security concerns should determine what is bought and sold from the stockpile. We hope that copper production will respond to expected higher prices

during the economic recovery. Some administration initiatives should assist in this regard: For example, the Economic Recovery Tax Act and regulatory reform.

I must add to this discussion the thought that we are, in fact, greatly concerned with the national security implications of declining production capacity in many American industries. Presently, several domestically produced strategic and critical materials are undergoing economic stress because of cyclical movements in prices.

The President, as evidenced in his recent minerals policy statement, recognizes these problems and has outlined a number of initiatives that his administration will be taking.

In addition, the President has formed the Emergency Mobilization Preparedness Board to insure that all the facets of mobilization planning and preparedness are comprehensively and simultaneously addressed.

This completes my prepared statement. Mr. Krueger and I would be happy to answer any questions regarding our program.

Senator HUMPHREY. Thank you, General.

I think it is best if we ask Mr. Jones for his statement, since we may want to alternate with the questions.

STATEMENT OF CARROLL JONES, ACTING COMMISSIONER, FEDERAL PROPERTY RESOURCES SERVICE, GENERAL SERVICES ADMINISTRATION, ACCOMPANIED BY JOHN R. BABEY, ACTING ASSISTANT COMMISSIONER, OFFICE OF STOCKPILE TRANSACTIONS, FPRS, GSA

Mr. JONES. Mr. Chairman and members of the committee, on behalf of the Administrator of the General Services Administration, Mr. Gerald Carmen, I am pleased to appear before this committee and discuss the management of the stockpile, specific commodity programs or actions and proposed legislation that could affect future operations.

Accompanying me this morning is the Acting Commissioner for Stockpile Transactions, Mr. John R. Babey.

GSA has been in the stockpile business since GSA was formed on July 1, 1949. Currently, the President's authority for stockpile management, including acquisition, disposal, exchange, barter, storage, and rotation contained in section 6 of the Strategic and Critical Materials Stock Piling Act of 1949, Public Law 96–41, dated July 30, 1979, is delegated to the Administrator of GSA by Executive Order 12155. The Commissioner of the Federal Property Resources Service is delegated the responsibility to manage the program for GSA, including the management of the national defense stockpile transaction fund.

The transaction fund is the account into which the proceeds of sales of excess stockpile commodities are deposited. Before the act—Public Law 96–41—created the fund, sales proceeds were deposited into miscellaneous receipts of the Treasury.

The act also provides that Congress shall authorize and appropriate money from the transaction fund to support the acquisition of commodities needed to meet our essential requirements, at a minimum for a 3-year national emergency.

At the end of April 1982, the value of stockpile goals for all necessary commodities totaled more than $17.5 billion. Materials on hand at more than 100 storage locations were valued at nearly $11 billion, $3.7 billion of the total represented excess material that could eventually be sold to generate funds for needed acquisitions to meet stockpile deficits of more than $10 billion. Excesses of diamond stones, silver, tin, and tungsten represent 90 percent of the excesses, with tin and silver having the highest value.

The President's statement of March 13, 1981, provided needed impetus to the program when he announced the initiation of the first major acquisition program for the national defense stockpile under the Policy Act of 1979. Following the President's announcement, GSA purchased 5.2 million pounds of cobalt costing $78 million as our first step in offsetting a critical deficit. This began the long overdue restructuring of the national defense stockpile.

We have acquired, in conjunction with the Department of Agriculture, 1.6 million tons of Jamaican bauxite under the Presidential directive of November 1981. This acquisition includes the barter of surplus agricultural commodities for 400,000 tons of this bauxite with a value of $13 million. Payment for the remaining 1.2 million tons will consist of $20 million in cash and an $18 million exchange of excess materials such as tin and tungsten. Other commodities in various stages of procurement are refractory-grade bauxite, quinidine, tantalum, iridium, and opium salts.

In fiscal year 1981 and fiscal year 1982 our acquisitions have been limited to a number of the high priority acquisition materials announced by the administration in March of 1981. For fiscal year 1983 we hope to be able to double our 1982 acquisitions if the $120 million budget request is appropriated.

Receipts covered into the transaction fund through March of fiscal year 1982 were $340 million, of which $157.6 million has been appropriated for acquisitions, leaving a balance of some $180 million for future appropriations.

In periods of soft markets we are continually pressed by producer interests to absorb the effects on their declining sales by suspending GSA sales. Under a basic principle of the Policy Act, sales are a necessary prelude to building our cash flows into the transaction fund. Suspension of sales is a suspension of the entire program. The economic relief requested, and at times discussed by producer interests, is not only contrary to the law but it also is often exaggerated conjecture as to the significance of GSA sales as a free market force.

Sales of silver, an item which represents more than 25 percent of the excess, have been temporarily suspended pending further interagency evaluations which are being coordinated by the Department of the Interior. This is after previous strategic reviews that established zero goals in 1976 and 1980.

Mr. Chairman, it would not be in the national interest to have our marketing efforts conducted on an irregular basis for economic purposes. When Congress authorizes a disposal, we become a legitimate free market factor and follow the requirements of the Stock Piling Act to avoid undue disruption of the usual markets, not only of the producers but also the processors and the consumers, while protecting the Government against avoidable loss.

Prior to selling any excess material, GSA thoroughly reviews the market situation. If sales are made, they are awarded at reasonable and acceptable prices which are not considered disruptive to the market. These awards reflect GSA's commitment to a responsible sales program that can generate the necessary funds for needed acquisitions.

Cessation or curtailment of disposal operations would be disruptive to some market elements and not in keeping with our responsibilities to restructure the national defense stockpile. Our rate of sales of excess materials this year is consistent with present market conditions and cannot be considered by any objective standard as unduly disruptive relative to U.S. and worldwide consumption levels.

GSA tungsten sales are an established part of the international market. In recent years GSA sales have been as high as 6 percent of world production. Currently they are about 2 percent. This decline is due to the same competitive factors and worldwide economic conditions faced by most tungsten suppliers. Imports have increased in the United States while GSA sales have decreased. Continuation of our efforts to conduct a responsible program will have no adverse impact on the overall outlook for tungsten.

The real cause for the current state of the tungsten market may rest with the aggressive and uncoordinated sales efforts of different marketing interests in a major producing country.

The President's materials and minerals statement of April 5, 1982, clearly indicates the need for the continued rebuilding of the national defense stockpile, including the need to market the excess. To date in fiscal year 1982, we have sold approximately 155 million dollars worth of excess material. Tin accounted for nearly 70 percent of the total proceeds. Silver sales, which were temporarily suspended in December, accounted for nearly 12 percent, and industrial diamond stones another 9 percent. Tungsten, with sales of slightly more than $5 million, accounted for slightly more than 3 percent. The remaining income for the transaction fund came from GSA offerings of antimony, iodine, mercury, mica, quartz crystals, and vegetable tannins.

At this time I would like to briefly comment on pending legislation.

We are opposed to the enactment of S. 2429, cited as the "National Defense Stockpile Copper Acquisition Act of 1982." This legislation would authorize acquisition of 200,000 tons of copper. Although we do have a shortfall of copper—the stockpile goal is 1 million tons and we have less than 30,000 tons in inventory—GSA has other stockpile commodities which are of higher priority, as announced by the administration on March 13, 1981. National security priorities should determine the commodities and quantities that will be bought with available resources.

Since we were authorized to sell some 30,000 tons of tin, a program that began in July 1980, sales have never exceeded the approximate 10,000 ton annual quantity discussed with the International Tin Council prior to our startup. In almost 2 years less than half of the originally discussed tonnages have been sold. Even at these responsible levels, our sales efforts have been criticized as disruptive in light of international economic conditions. While additional authority to dispose of the excess tin in the stockpile will be requested in the future, there is no need for this authority at this time.

Regarding S. 1982, a bill to create a Strategic Stockpile Commission, GSA opposes this legislation because it is in the national defense stockpile program's interest to maintain the present separation of authority between policy, FEMA, with its long-range emphasis and management operations, and GSA, with its day-to-day market function and contracting responsibilities.

Establishment of a commission would not alter existing market conditions and would remove the program activities from the oversight and the public and open conduct of our operations.

Mr. Chairman, this concludes my statement. At this time I would be pleased to respond to questions you or the members of the committee may have.

Senator HUMPHREY. Thank you, Mr. Jones.

S. 1982

The heart of the problem is that politicians have been meddling in the affairs of the Nation. If we don't do something and we continue the status quo, which is what you are suggesting here, then how do we prevent future meddling?

General LEWIS. Is that a question to either one of us?

Senator HUMPHREY. Yes, General Lewis.

General LEWIS. I don't know whether to characterize it as political meddling, but I am not sure you can ever eliminate the political effect. I think this was brought out in previous testimony by Senator Schmitt. You just can't isolate what goes on in any of these agencies from that; however, the track record that was cited before as reasons for creating a separate commission is not the current track record.

We think that while our Agency is very young it has been given specific responsibilities in the policy area, and that the current system is working. We think you ought to stick with it.

Senator HUMPHREY. The current track record is fine, but we are worried about the future as well as the present. We want to eliminate the kind of mischief—and that is what it has been; let us face it—on the part of both parties, that has led to the situation today where we have a strategic stockpile that is badly out of sync with our needs, and even if it proceeds according to the best plan, is not going to improve very much over the next couple of years.

I want to focus on that aspect, too, a little later.

What assurances are there that the kind of mischief that we all acknowledge has taken place won't occur again unless we make some fundamental changes?

STOCKPILE BUDGET

General LEWIS. We have the commitment of this administration that the stockpile will not be used for budgetary purposes. You also have the oversight of this committee and other committees as to what actually goes on, because Congress, as we stated in our principal statement, has to authorize either the selling or the buying of material.

I can't address the impact on the Congress of this. You are much more qualified to do that than I am.

Senator HUMPHREY. Let me take some of your arguments, point by point:

On page 7 of your statement, the second point, you suggest that "the proposed legislation would remove Federal assets from budgetary controls. We think taxpayers should have a right to expect that stockpile transactions compete with other equally important programs." I don't understand that point, inasmuch as the money within the stockpile fund is supposed to be spent on other strategic materials.

What do you mean by "compete with other equally important programs, especially other defense programs, for scarce Federal resources"?

General LEWIS. As I understand the authority to be given the separate Commission, it will have a revolving fund, and as it sees fit, it will buy and sell materials. It is not tied in tightly at all to what is going on in the other agencies of Government with respect to programs and budgets that are the actual basis for the program to acquire materials to meet national security needs.

Senator HUMPHREY. That is what we are talking about, acquiring materials for the stockpile; funds cannot be used to buy M–1 tanks or anything else. It does not seem as though your point is valid, unless I am overlooking something. The funds will still be available only for strategic materials.

General LEWIS. They are available now for strategic materials. The previous administration and this administration since 1979 have requested authority to spend $700 million. That has not been granted because of the concerns of Congress.

Now, what would happen, as I understand it, under the independent agency, is that while Congress would have oversight, the agency itself could in fact go out and acquire the $700 million worth of materials and without any consideration of the concerns that Congress has expressed in the past. We think these concerns ought to be brought to bear in these acquistion actions.

Senator HUMPHREY. Why has not Congress acted to spend any of the money? That we are so busy with other things is part of the problem. The system is so awkward. The President does not request it; the Congress does not initiate it on its own authority because it is busy with other things, so we have money sitting there when we badly need to be buying resources for this incredibly insufficient stockpile.

General LEWIS. I was not aware that it was a lack of time that led to the outcome.

Senator HUMPHREY. I think on the part of the administration they frankly just want that money to lie there because it looks good on the books. That is nothing new.

General LEWIS. That is not the reason the money is there. We have asked for authority to appropriate money to purchase materials and it has not been granted.

STOCKPILE COMMISSION

Senator HUMPHREY. You say on page 8 that adopting the Schmitt proposal would create another bureaucracy. Senator Schmitt does not seem to think so. He feels that we would simply be transferring responsibilities and personnel. Why do you say we would be creating another bureaucracy?

General LEWIS. It will be another separate agency; it will, in fact, have to interact with other agencies and departments. While it will have expertise on it in each of the major areas that are now required to reach our conclusions, it will still require interaction with all the other departments involved in the stockpile process. The other departments and agencies will still have to have people involved in this activity to respond to the Commission and to provide expertise to the Commission.

These people on the Commission are, in fact, isolated from the other departments by design; they will have to get the knowledge and expertise of those who are in the other departments who are on a day-to-day basis living in the environment of the other departments with their special responsibilities. That type input is required in determining stockpile goals and is required in determining priorities of materials for acquisition.

Senator HUMPHREY. Certainly that is true, but the proposal, as I understand it, would simply transfer personnel and responsibilities; it would not bring about a net increase in the level of personnel involved in this program now. Do you dispute that?

General LEWIS. I don't dispute that. I believe the people would be transferred. In addition, there would still have to be people in the agencies with whom those in the Commission would have to interact.

Also, you would need a separate overhead. For example, a general counsel and other similar support personnel required by any new agency.

Senator HUMPHREY. You object to the lack of provision for emergency release. That has been apparently corrected in the amended copy of the bill, so that objection is withdrawn now, I guess, is it not?

Mr. KRUEGER. We can't comment because we have not seen the change, but we are concerned about the adequacy of peacetime——

Senator SCHMITT. They have had a copy of my bill. They may not have looked at it.

PACE OF ACQUISITIONS

Senator HUMPHREY. Let us turn to the present administration of this strategic stockpile. In 1981, there was about $100 million appropriated and in 1982, $57 million, something like that. We have a $10 billion shortfall. What is the plan here? Do we have a target date by which we are going to come somewhere near to being sufficient? At the present rate, obviously, it would take decades, and by then all of these goals will have changed—they will no longer be valid.

While it is progress, it is pretty slow progress. Is there a target date, a goal?

Mr. KRUEGER. I think everybody concerned with this program would like to see the program proceed at a faster pace than it is, but given the realities of what Congress is willing to appropriate, given the realities of current budget deficits in Congress, proceeding at a faster pace is imprudent.

Senator HUMPHREY. I think it is clear to everybody that this, for whatever the reasons, and it is not your fault, I think it is clear to everybody that this is snail's pace progress; it is not going to get us where we need to be very soon.

Senator Levin?

Senator LEVIN. It is slower than a snail's pace; it will take 83 years to get to our present goal at the present rate. The snail would do it in 46 years.

You seem to say that the problem is not that the administration has been proposing purchases; it is that the Congress has not been appropriating. Then in opposition to the Schmitt bill you say you want Congress to continue to have an input. Which way do you want it?

General LEWIS. I don't think the responses are inconsistent. We want Congress to appropriate the money that we are requesting after they are satisfied that what we are requesting is appropriate.

Senator LEVIN. Even though we have not exercised the power properly, in your view, you still want us to have the power to exercise it?

General LEWIS. That is correct.

Senator LEVIN. In this year's budget you have, as I understand it, about $350 million in sales projected and about $120 million in purchases. Does that sound about right?

General LEWIS. $120 million in purchases. Sales are $590 million; and that includes silver, if we are authorized to proceed with the sale of silver.

Senator LEVIN. And excluding the sale of silver?

General LEWIS. $190 million.

Senator LEVIN. You have $590 million with silver and $190 million without it?

General LEWIS. That is correct.

Senator LEVIN. You have $120 million of purchases?

General LEWIS. Yes; that is correct.

Senator LEVIN. Given the $10 billion shortfall, why don't you at least buy as much as you sell in your budget proposal?

General LEWIS. I believe the request would have been higher if the appropriations bills in the recent past had been higher.

Senator LEVIN. Is your request dependent on what is appropriated? Your request should be your request. Why don't you at least request the Congress to appropriate as much money for purchases as you are proposing to sell?

General LEWIS. Since that quantity is not in FEMA's budget but in GSA's, I will turn the question over to GSA.

Senator LEVIN. Mr. Jones?

Mr. JONES. I must admit I agree with your approach, Senator, relative to the shortfall we have, which is some $10 billion or $11 billion, to achieve our goal.

I believe that these targets were arrived at by viewing, as the general said, what occurred in the past and what the budget restrictions were looking like at the time the budget was prepared, what we can realistically anticipate, and as I look back on this program, which I am not fully familiar with for I have been in the position just a short time, but as I look it over, there has been extremely little activity since the commencement of the program back in the 1950's other than setting goals and changing them around, that sort of thing.

Senator LEVIN. That is a new way to budget, very novel, I think, too. There are a whole lot of other requests that are made without a

realistic anticipation that it will be granted by the Congress. Is that OMB's standard, not what is right but what they believe can be really anticipated by the Congress? I don't want to put you in a bad spot. You apparently are relatively new there and I am sorry. I did not know that. Maybe the gentleman with you?

Mr. JONES. Mr. Babey is the Acting Assistant Commissioner for Stockpile Transactions, which carries out the programs.

Senator LEVIN. Maybe he can help us out.

GSA STOCKPILE BUDGET REQUEST

Mr. BABEY. The budget request we have is what has been given to us and looking at what we have had come into the fund in what is a relatively short program. The overage you are talking about right now is in the range of $60 million or $70 million.

Senator LEVIN. If the silver is sold, it is in the range of $470 million?

Mr. BABEY. But that authority has been yanked from us at this point in time. We don't know when we are going to get it back.

Senator LEVIN. That still was in your budget, the $590 million?

Mr. BABEY. That was the anticipated mark. You have this range because of the volatility of the commodities, the changes in prices, and we admit it is very hard to predict. Right now we have had about $340 million come into the fund since July 1979, when it was created. We have approximately $158 million in appropriations. We have a request of $120 million for 1983. There is this overage of $60 million.

Senator LEVIN. Why don't you spend your overage? I don't understand it.

Mr. BABEY. It is very hard to anticipate.

Senator LEVIN. You already have it in the fund?

Mr. BABEY. That is now. At the beginning of the year when the budgets are made up, you are talking about 12 to 18 months leadtime. There is a lot of anticipation. As there is buildup in the funds, you will see larger appropriation requests.

Senator LEVIN. I am not talking about that. I am talking about why your purchases don't at least equal your projected sales. If your sales don't materialize, you won't purchase. Why in the budget document you submit don't you have at least the full expenditure for what you take in? If you don't take it in, you don't spend it.

Senator SCHMITT. At the time the original request was made, the estimated benefit from sales was going to be over $1 billion. A simultaneous request for purchases was $120 million.

Senator LEVIN. I am trying to make the point separate and apart from the figure. I don't care if it is a $50 million shortfall. As Senator Schmitt pointed out, it is probably more than like $900 million. We have a shortfall in the strategic reserve. Whether or not we are planning on taking $100 million or $200 million or $1 billion, we are not spending in your request what we are taking in.

In my mind, I have to think there must be some motive for that, such as helping with the budget deficit. Could that be a possible motive?

Mr. JONES. To my knowledge, I would have to answer that in the negative, Senator.

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Senator LEVIN. You don't have any knowledge because you just got there a week ago?

Mr. JONES. Well, 2 weeks ago. I have a little knowledge.

Senator LEVIN. I am wondering whether your assistant can answer whether there were any conversations with the Office of Management and Budget about the size of the expenditures this year?

Mr. BABEY. I would not have done it directly or have gone through the normal agency budget review process.

Senator LEVIN. You don't know, yes or no?

Mr. BABEY. No, on that particular thing. That may be something for Mr. Stockman's people.

Senator SCHMITT. Would the Senator yield on this point?

Let me quote again from the act: "The purpose of the stockpile is to serve the interests of the national defense only and is not to be used for economic and budgetary purposes." Just to show that the word "budgetary" is in the act.

When the President submitted his September request of last year, the $120 million was revised downward by $63 million. It was reduced from $120 million to $57 million. $120 million was too low because they thought they were going to gain $1 billion. Because it is an interest-free loan to the Treasury, that was a net budget reduction of somewhere around $100 million, based on Treasury bill rates.

And then to put icing on the cake, this stockpile is being used illegally for budgetary purposes: they reduced the GSA request for budgetary purposes from $120 million to $57 million. If that is not a budgetary use of the stockpile, I would like to know what is. It is one of the things if it walks like a duck, quacks like a duck and swims like a duck, it must be a duck.

Mr. KRUEGER. The original request for fiscal year 1982 was $120 million. In the September revised request it was reduced by 12 percent, as were all Government requests at that time.

Senator SCHMITT. You have just made my point. That is a budgetary use of the stockpile.

Mr. KRUEGER. That was down to $105 million. It was the Senate Appropriations Committee which reduced it to $57.6 million.

Senator LEVIN. The question is whether or not these stockpile sales are being used for budgetary purposes. Is there any doubt in your mind that they are being used for budgetary purposes?

General LEWIS. There is no doubt in a very pure sense that they are used for budgetary purposes.

Senator LEVIN. With the 12-percent cut to produce savings for the budget which reduces the stockpile request of $120 million, isn't it clear that the stockpile request is affected by the desire to reduce the deficit?

General LEWIS. In that context.

Senator LEVIN. So that violates the law that says stockpile sales will not be used for reduction of the budget deficit.

Senator SCHMITT. I will say the Senator is exactly correct.

Senator LEVIN. I think we ought to get a review of this whole process. I have a lot more confidence in unaccountable members of agencies—we used to call them unaccountable bureaucrats—than I do in elected officials. I am not sure I am ready to move to Senator Schmitt's bill. I happen to like accountability. As a matter of fact, Senator

Schmitt and I are on a bill together, which has to do with accountability, called legislative veto. I happen to share Senator Schmitt's frustration with the whole process.

We adopted an act a few years ago that says you don't use stockpile sales for budgetary purposes, to balance the budget, for economic reasons, but only do it for strategic and military reasons. That is exactly what we are doing.

If you come in with a budget request when you show sales of $1 million or $100 million or $1 billion more than you are requesting purchases for, when we have a shortfall of $10 billion, I can only reach that conclusion. I don't think there is any other fair conclusion.

I would like to ask for the record, what was the request from the agency to OMB for purchases; can you tell us that?

General LEWIS. It was GSA who submitted the budget.

Senator LEVIN. Can you tell us what the original request to OMB for purchases for 1982 and 1983?

Mr. BABEY. I can refer more to the 1983. It was $95.6 million. The OMB mark was $120 million.

Senator LEVIN. It was $95 million following discussion with OMB?

Mr. BABEY. It came back from OMB at the $120 million.

Senator LEVIN. Was your $95 million request following discussions with OMB?

Mr. BABEY. I cannot tell you. I was not in those discussions with the Budget Office. I am in an accounting capacity.

Senator LEVIN. What was the original request of the agency from OMB for 1982 and 1983? Let me tell you, if your request is a lot less than what you are receiving from sales, then we have to ask the agency. Don't point to OMB for reasons for the cut. Why was your request less to OMB for purchases than you were projecting in sales?

Mr. JONES. We will be happy to provide that answer.

Senator LEVIN. Let us have it right now, if this gentleman can tell us.

Mr. JONES. I dont' believe he can.

Mr. BABEY. I was not in that review process at that time.

Senator SCHMITT. This is like dealing with the Commission. No one is accountable.

Senator LEVIN. I think we have to give some authority to folks who spend money which is there to satisfy the needs of the stockpile, not to produce a phony surplus or reduce the deficit. All it is is phony; it can't be used for that purpose. It looks good on paper but that is it; that is the extent of it—a paper reduction of the surplus.

I think we have the worst of both worlds. We have a phony reduction in the deficit—that is the worst of one world; and we can't use it for that purpose—that is another world. A third world is that we can't use it for the purpose for which it is intended because we haven't asked for it or appropriated it. I think we have the worst of all three worlds.

I would like for the record, Mr. Chairman, to know how much was originally requested for purchases from the OMB, and if less than the amount expected to be received from sales requested, why.

[The information follows:]

The original GSA budget requests for fiscal year 1982 and fiscal year 1983 were $908.9 million and $862.4 million respectively.

QUALITY OF STOCKPILE INVENTORY

Senator HUMPHREY. Which agency has responsibility for seeing that the material in the inventory is maintained in good shape, that it is not deteriorating?

Mr. JONES. GSA has that responsibility.

Senator HUMPHREY. What is your agency's response to the criticism that some of these materials are deteriorating and do not meet current standards and so on?

Mr. JONES. We have a rather extensive inventory of materials, Mr. Chairman, but I would suggest, on balance, with the exception of certain isolated incidents such as a warehouse where we developed a roof problem in Louisiana, or something of that nature, that at the stockpile sites that I have visited and the items that I have looked into, I would characterize the maintenance activity as very high.

Now, on the other side of the coin, I suppose there are materials in the stockpile that have been maintained there for many years and in particular I refer to the gum opium which is containerized and, of course, has all the attendant security problems. We have plans, and are requesting funds in this particular year, to upgrade that particular commodity.

Items that I have looked at are well maintained and the Office of Stockpile Maintenance is an active, well run operation.

Senator HUMPHREY. Again, we are all aware that you are new in your position, Mr. Jones.

Mr. Mulready, one of our following industrial witnesses, says in his testimony that titanium producers believe that 25 to 40 percent of titanium sponge in the stockpile may have deteriorated. Tin stocks have also shown signs of poor quality through water entrapment and corrosion. Do you have any knowledge of that kind?

Mr. JONES. I have no knowledge of that, Mr. Chairman, but I will be happy to respond.

Senator HUMPHREY. I believe we will ask that a report be submitted in writing on the condition of the materials in the stockpile; likewise, whether the standards have been updated. I know I saw in someone else's testimony that titanium rutile, what we have in the stockpile, is not really adequate to the purposes for which it would be used. So, if we can have a report from GSA on the condition of materials in the stockpile and whether the standards are adequate to the times——

Mr. JONES. We will be happy to see that that is provided, Mr. Chairman.

[The report follows:]

STOCKPILE MATERIALS

The National Defense Stockpile is currently comprised of 95 commodities in the categories of ores, metals and metal compounds, minerals, and organic or so called agricultural products. The crudest form of the materials are the ores. The major concern with the ores is the form since the material will have to be converted or processed for end use. Minimum quality standards are required and these have not changed substantially over the years.

Metal and metal compounds are generally in purer form. Technological advances over the last 30 years especially in the aerospace industry have caused major changes in some metal specifications such as cobalt. Stockpile minerals for the most part are generally of high quality and in some instances of such high quality that equal or better cannot be obtained commercially at present. The Stockpile presently has grades of asbestos which sometimes cannot be obtained commercially.

Because of the nature of the organic or so called agriculture products, some deterioration with time can be expected. This is the reason for rotation programs for products such as rubber.

Regarding specific comments during this hearing, we have been advised by the speciality steel industry that all of the cobalt in the Stockpile is probably usable over the broad spectrum of industrial applications. The new acquisition of 5.2 million pounds is especially suitable for high temperature alloys.

Concerning the question on the titanium sponge, we recently spot-checked and tested a small number of lots of the material. The tests indicated that the material showed no significant changes over 20 years, and the material meets the hardness requirement in the latest specification for two of the four listed types. The degree of hardness is an indication of the effect of oxygen, hydrogen, or nitrogen in the metal sponge with time.

GSA has been selling tin for the past 15 years, and to our knowledge there has been no problem with the quality or the usability of the material by industry. This is borne out by continuing interest in GSA sales of the material. As to the specifications for the materials, GSA is a member of the Interagency Committee which develops the chemical and physical requirements. This is an ongoing process and heavy reliance is placed on industry input in order to have adequate and up-to-date requirements for stockpile materials.

GOAL CALCULATION

Senator HUMPHREY. Going back to strategy again, General Lewis, a national security adviser recently made a speech outlining a new global strategy and the necessity for global planning and so on. Has this filtered down to FEMA yet? Are you beginning to adjust to this apparently new strategy?

General LEWIS. I indicated in my statement that we are updating the goals, and the new strategy will be a part of that process.

Senator HUMPHREY. When will that be completed?

General LEWIS. We expect the goals to be updated by the end of the year.

Senator HUMPHREY. As the program is set up now, the responsibility for stockpile planning is FEMA's and maintaining the operation is GSA's; is that right?

General LEWIS. That is correct.

DIVISION OF STOCKPILE RESPONSIBILITY

Senator HUMPHREY. What kind of problems does that split responsibility create?

General LEWIS. In the past 2 years, as I understand it, FEMA did not attend the budget hearings. FEMA was not invited by the Appropriations Committee to come to the budget hearings. That, in turn, may have created a problem. You see, GSA submits the budget, and over several years FEMA and its predecessor agencies, one of which was in GSA, sent representatives to those budget hearings. That has not happened in the last 2 years.

We think that could create a problem and we would like to see that policy changed.

Senator SCHMITT. There is not much point in talking appropriations to FEMA if they don't have any control over the budget, is there?

General LEWIS. In that FEMA is responsible for the overall policy, I believe the Appropriations Committee would like to hear from FEMA. It seems that they might want that information FEMA could provide as they render their decision.

Senator SCHMITT. That policy obviously is not affecting the budget. This is a very unusual situation. I don't know of any other circum-

stance in the Federal Government where one agency sets policy and another the budget. Do you know of any other agency where that works?

General LEWIS. I am a little more familiar with the Defense Department. I know the military services do the budgeting. The unified and specified commanders, of course, have a major say as to how the forces and resources provided by the services will be used, but the budget goes to the services. In that sense, you might consider that similar.

Senator SCHMITT. There is a direct chain of command, and Secretary Weinberger presents the total budget of the Defense Department?

General LEWIS. Yes, he does.

Mr. KRUEGER. If I may add, in that regard, this split between budget and policy has been with us since the beginning of the program. Filling the stockpile was a national commitment on the part of the administration and on the part of the Congress in the early 1950's. On the problems of budget and ancillary things, everybody worked together.

In 1948, the Congress appropriated $1.5 billion to fill up the stockpile. In 30 years, given inflation. $1.5 billion is an awful lot of money; we have not been able to redevelop that consensus of the early 1950's within the Nation. I think once that is developed, the apparent problems will disappear.

Senator SCHMITT. Do you think that the split situation you have right now, and the relatively low visibility historically that this issue had had, contribute to that national consensus?

General LEWIS. I would say the issue of split responsibility we are talking about here is of much lower order than the one Mr. Krueger was describing. Filling a stockpile was not important for 20 years. This administration has made the first purchases in the 20-year period. It is now becoming an issue that has the support of the administration and, to some extent, the Congress.

COPPER

Senator HUMPHREY. Let me turn to this copper issue. Obviously, the administration opposes the proposal because we have higher priorities. Where does copper rank in the list of priorities?

Mr. JONES. Priority No. 3.

Senator HUMPHREY. What are one and two?

Mr. JONES. Various materials.

Mr. KRUEGER. Senator, if I may, in March of last year, FEMA issued a list of materials. Out of 43 materials in deficit, there were 13 materials identified as the highest priority for acquisition. Copper was not on that list.

Senator SCHMITT. FEMA makes policy. Was that because there was a strong domestic copper industry at that time?

Mr. KRUEGER. That took into account the status of our current inventory, which in copper, you know, is very low and the amount of copper which we perceived would be available during an emergency.

Senator SCHMITT. Perceived to be available—from what source?

Mr. KRUEGER. If I understand the Senator, you are saying that was based upon——

Senator SCHMITT. When you set those priorities, there was a strong domestic copper mining and milling industry, a weaker refining industry, an industry getting weaker. That has worsened since that time?

Mr. KRUEGER. That is correct. You are correct when you say it was based upon the status of the copper industry in 1980.

Senator SCHMITT. If you went back and looked at copper, given the current circumstances, that priority might well change?

Mr. KRUEGER. That could be possible. I think we addressed that point in our statement, not just for copper but for all materials.

Senator HUMPHREY. I have a number of questions for Mr. Krueger from Senator Jackson. We will just submit them to you in writing to save some time.

STOCKPILE BUDGET

Senator HUMPHREY. Senator Levin?

Senator LEVIN. I want to go over these numbers one more time. The projected sales for 1983 were approximately $190 million without silver, approximately $590 million with silver, and the $590 million figure was the one we used for budget purposes because you assumed for the budget that the silver would be sold; is that correct, General?

General LEWIS. That is correct. That was in the GSA fiscal year 1983 budget request.

Senator LEVIN. Right?

General LEWIS. That is right.

Senator LEVIN. Then the GSA request indicated purchases of $120 million; is that correct, Mr. Jones?

Mr. JONES. I believe so, sir.

Senator LEVIN. So that the deficit could be reduced by $470 million as a result of that budget request; is that correct?

Mr. JONES. I don't know that, Senator.

General LEWIS. It would be reduced until such time as that money is spent for strategic materials.

Senator LEVIN. So, for the purposes of this year's budget, if there is only $120 million requested for purchases, the deficit will be reduced by $470 million; is that correct, General?

General LEWIS. I believe the calculation would come out that way.

Senator LEVIN. That is $470 million which cannot be used for any purpose except to acquire material for the strategic stockpile; is that correct?

General LEWIS. That is correct.

Senator LEVIN. Yet it has the effect of reducing the deficit by $470 million. If this is straightforward budgeting, then I don't understand the word "straightforward."

Now, on top of that, how much was in the transactions account at the time you submitted the request for 1983?

General LEWIS. $182 million.

Senator LEVIN. You had $182 million in the transactions account. The projected sales were at least $190 million without silver. I will skip the silver for the time being and talk about dollars and skip the silver. That is $372 million we expected in the transaction account by the end of the year, yet the request came in for only $120 million for purchase.

The only explanation we got this morning for that is that you did not expect the Congress would appropriate more than $120 million, given our history; is that correct?

General LEWIS. That is correct.

Senator LEVIN. Is that going to be your policy, to request only what you predict the Congress is going to do, instead of what is right and needed in the future.

General LEWIS. I think that a criterion in creating any budget, is what is a reasonable amount to request for that year.

Senator LEVIN. You have an amount sitting out there that can't be spent for any other purposes, with a $10 billion identified need. This is not a question where you have competing priorities for the same dollar. This is a question where you have set aside this money; it can't be spent for any purpose except for strategic needs.

What justification is there for considering what Congress is likely to do when you have that legal limitation on that fund?

General LEWIS. I guess we could run a fairly easy test within the year when we see how much Congress appropriates and the amount we put in next year's budget.

Senator LEVIN. I think you ought to run that test. You should do what is right in your view, since we can't use the funds for any other purpose, and we have a $10 billion need, rather than trying to predict what Congress will do to reduce the deficit.

General LEWIS. I don't think we try to predict the exact outcome, but we put in what we believe is a reasonable amount.

Senator LEVIN. It will take 84 years to get the strategic stockpile goal accomplished at the rate of $120 million a year.

General LEWIS. For 20 years it would have taken an infinite number of years. We bought nothing.

Senator LEVIN. But the money can't be spent for anything else?

General LEWIS. For 20 years it could not be spent for anything else.

Senator LEVIN. I am not defending the past 20 years.

General LEWIS. I would like to correct my statement. That was not in the Stockpile Act before 1979. I can't defend the past. I can only defend the present.

Senator LEVIN. Now, we adopted the 1979 act which says you can't use the money for anything else. How can you defend the budget request to OMB?

General LEWIS. For that I will turn to GSA.

Senator LEVIN. I knew you would. You should. Mr. Jones has not been here long enough, so let us go to the end of the table.

How can you defend the current budget request to OMB for $190 million when you have $372 million sitting there which can't be spent for anything else?

Mr. JONES. I am afraid that Mr. Babey is not available to address that question. I will be happy to provide a written response when I have had an opportunity to look into the matter.

Senator LEVIN. I understand that and appreciate the response for the record.

[The information follows:]

[Information not received in time for printing.]

Senator LEVIN. I can understand Senator Schmitt's frustration in trying to find a way to avoid this problem. I think there should be

some kind of change in the present situation. We cannot accept this because we are not doing something that is responsible. If we reduce the deficit with this money, that may be responsible. If we really reduce the deficit, that could be a decision on whether or not you want lower interest rates and get the deficit down and get the economy going again. That may be a very responsible position, but we can't lower the deficit by not spending this money. All we can do is lower the paper deficit.

We will find this year we are going to have $470 million more in deficit than our paper deficit shows, and it is going to be, we know it is going in, that is the 1979 act. It seems to me that is absolutely irresponsible. That is the only word I can use.

I have to share the blame with the Congress. I think all of us are doing a very irresponsible thing and at the same time we are not getting the stockpile built to where we believe it should be.

Mr. JONES. Indeed we have a revolving account which is what I understand was contemplated in the first instance when the transactions fund was established.

Senator LEVIN. I don't care whether we buy copper for whatever else we need. I am not pushing copper. I will go to your list, one, two, and three. You establish the goals, whatever those goals are. Ten billion dollars is achievable. Also, we can use the money to reduce the deficit. We have competing goals at that point. Then you have the question, how do you use scarce dollars? Maybe the 1979 act ought to be amended. I am not ready to propose that.

Let us obey the law which says you cannot use the money for budgetary purposes or change the law. For heaven's sake, let us spend it on an identifiable $10 billion need and not use it to give us an illusion that our deficit is only $110 billion this year when it should be $110.5 billion. I don't think those kinds of illusions are very responsible.

I would appreciate the answer on the budget.

Mr. Jones. I am sorry I looked to you for an answer which you are not in a position to give us. Maybe next week.

Senator HUMPHREY. Senator Schmitt?

Senator SCHMITT. I appreciate the time the committee has given me.

Senator HUMPHREY. I am not sure the witnesses appreciate it.

Senator SCHMITT. I will just add that I think the testimony and discussion have indicated, as Senator Levin has said, that some change is necessary.

I would just submit that the conclusion I came to is that if we had a high-level commission it would be solely concerned with filling the goals, would have to make a request for an appropriation of the Congress and Congress would have an opportunity to do the same thing it has done in the past, but at least it would be talking with one voice, a commission that would have one voice, a particular purpose for existing, and that purpose would be guided by the law and by the modification to that law that we would make by the bill that I propose.

I can't see any other way to get away from the kind of problem that Senator Levin has so correctly and adequately addressed today.

Senator LEVIN. Why not give the President more authority?

Senator SCHMITT. We have, in the revised bill. He not only can take full authority in a national emergency but also he has release

authority. One thing we would reserve outside of the national emergency for the Commission is the sale authority and direct request to the Congress.

Senator LEVIN. Why not have GSA or FEMA, whoever ends up administering this, have the power of the Commission?

Senator SCHMITT. Because OMB will be there, as we have already seen this morning, adjusting whatever they are requested to do for budgetary purposes.

Senator LEVIN. If we prohibit the use for any budgetary purpose. We don't count the surplus in for purposes of budgetary reduction. Why not have the administration create guidelines rather than have the commission?

Senator SCHMITT. They have that authority now, but they exercise it through several different mechanisms—GSA and FEMA and OMB. OMB ought to be sitting here to answer the questions.

I apologize for some of the pressure we have put on the witnesses, but in part it is a direct reflection of the problem we have with the management of the stockpile. It is what I got into and found out some time ago. I think the committee has now seen what a morass this situation is. There is no direct authority that we can go after and blame for mismanagement of the stockpile.

Senator LEVIN. Why not just take it off the budget and make the authority clear, in one place; make it an off-budget item?

Senator SCHMITT. You are still going to have the intervention of the Office of Management and Budget. I don't see any way to get away from that particular problem, except by an independent commission. The stockpile is off budget now. According to law it is off budget.

Senator LEVIN. I mean, make the item off budget. Why not just make the item off budget so that we can't pick up any money for deficit by not spending for the stockpile?

Senator SCHMITT. That would be the effect of the Commission proposal. The additional effect would be that we would avoid what we have seen in the last 20 years. Let us assume that this administration has great motivations in reversing the bad policy of the past 20 years. It is not obvious that that is the case yet, but let us assume it is. We don't know what will happen next.

The stockpile is a basic resource for the country independent of whatever administration exists, whatever Congress exists. To the degree that it is possible—and it is not totally possible to make it independent of political and subjective considerations—but to the degree it is possible, that resource should be there and it should be managed in the best way possible for the country, independent of how we may feel over here.

Senator HUMPHREY. Gentlemen, let me suggest that we continue this in private.

We have additional questions which you may answer for the hearing record.

[Questions with answers supplied follow:]

QUESTION SUBMITTED BY SENATOR GORDON J. HUMPHREY

Senator HUMPHREY. General Lewis, if the goals for strategic and critical materials are being reevaluated and might possibly increase, should not a moratorium be placed on sales until the new goals are established?

General LEWIS. No. We will direct the General Services Administration to stop or reduce any sales program that may be affected by a probable increase in a stockpile goal. We have taken this action for several materials in the past. Since most excess inventories are relatively large, however, this is not a serious problem at the present time.

QUESTIONS SUBMITTED BY SENATOR CARL LEVIN

STOCKPILE MANAGEMENT

Senator LEVIN. General Lewis, according to your statement, "We need $10.2 billion worth of materials to satisfy our national defense needs." What are the major shortages—in tons and in dollars—in our current national defense stockpile?

General LEWIS. The major stockpile shortages in terms of tonnage and dollars are in strategic metals. The five largest deficits are:

	Short tons	Billions
Metal:		
Titanium	162, 669	$1. 8
Copper	970, 952	1. 5
Nickel	200, 000	1. 2
Rubber	818, 487	. 8
Zinc	1, 049, 030	. 8

Senator LEVIN. If you had $1 billion to spend on stockpile materials in fiscal year 1983, what would you buy?

General LEWIS. A billion dollars would permit the purchase of the top priority materials (listed in our announcement of March 13, 1981) including: Aluminum oxide, bauxite, cobalt, columbium, fluorspar, manganese dioxide, medicinals, nickel, platinum group metals, rubber, tantalum, titanium, and vanadium.

Senator LEVIN. General Lewis, for the record please provide a list by commodity, showing the purchase price and amount of the materials making up the $3.7 billion excess in the current stockpile.

General LEWIS. The amount of these materials and the acquisition costs are shown on the table below:

EXCESS STOCKPILE MATERIALS, MARCH 31, 1982

Material	Units	Quantity	Acquisition cost (millions)
Antimony	Short tons	4, 729	$3. 0
Asbestos, amosite	do	25, 393	6. 2
Asbestos, chrysotile	do	6, 849	4. 0
Diamond stones	Karats	9, 546, 456	106. 0
Diamond, Industrial crushing bort	do	1, 692, 817	3. 7
Iodine	do	1, 956, 160	2. 3
Manganese, chemical grade	Short dry tons	51, 045	3. 5
Manganese, dioxide battery natural	Short tons	157, 126	19. 4
Manganese, metallurgical	Short dry tons	960, 943	50. 0
Mercury	Flask	178, 516	32. 9
Mica:			
Muscovite film	Pounds	1, 183, 085	6. 6
Muscovite splittings	do	6, 075, 854	6. 3
Phlogopite splittings	do	748, 947	0. 7
Quartz crystals	do	1, 475, 096	18. 5
Sapphire and ruby	Karats	16, 305, 502	0. 2
Silicon carbide	Short tons	51, 550	10. 3
Silver	Troy ounce	137, 505, 946	177. 8
Talc, steatite block and lump	Short tons	1, 064	0. 4
Thorium Nitrate	Pounds	6, 529, 350	13. 6
Tin	Long tons	149, 526	362. 5
Tungsten, ores, and concentrates	Pounds W	33, 606, 868	104. 3
Vegetable tannin:			
Chestnut	Long tons	10, 920	3. 0
Quebracho	do	110, 179	27. 3
Wattle	do	804	202. 7

Senator LEVIN. Senator DeConcini believes we should buy more copper for the stockpile. What is the current inventory and the inventory objective for copper in the stockpile?

General LEWIS. The stockpile inventory contains 29,048 short tons. The stockpile objective is 1 million short tons.

Senator LEVIN. Where does copper fall on the priority list of materials to be purchased for the stockpile?

General LEWIS. Copper is assigned an intermediate priority in the stockpile acquisition program.

Senator LEVIN. Who determines the relative priority of items to be bought under the stockpile program? What criteria are used to determine this?

General LEWIS. The Federal Emergency Management Agency determines the relative priority of stockpile materials. Priorities are based on the relative risk to national security of not meeting defense, essential civilian or basic industrial requirements. Materials needed to meet defense requirements, especially at the beginning of the war, are assigned the highest priorities. The lowest priorities are assigned to materials needed for basic industrial requirements toward the end of a 3-year wartime planning period.

Senator LEVIN. General Lewis, according to your statement the current set of stockpile goals was established in May of 1980. You are now apparently recalculating stockpile goals based on new information. How often are the stockpile goals for specific materials reviewed? Is there a formal periodic schedule for reviewing stockpile requirements?

General LEWIS. Stockpile goals are reviewed at least every 4 years. The review is scheduled in accordance with changes in assumptions regarding changes in a wartime civil economy, wartime foreign trade patterns, shipping losses, wartime political and economic stability of foreign nations, and alternate foreign and domestic production levels for stockpile materials. (Assumptions were derived by a major interagency effort and endorsed by President Reagan on April 5, 1982). A key element of the policy is that the stockpile should be sufficient to meet the military, industrial, and essential civilian needs for the first 3 years of a war (required by statute). In addition, the assumed war scenario is consistent with the scenarios being developed by the Emergency Mobilization Preparedness Board chartered by Executive Memorandum dated December 17, 1981.

Senator LEVIN. General Lewis, the Stock Piling Act encourages GSA to use barter transactions to acquire stockpile materials. Have you made any progress, for example, in bartering government-owned surplus agricultural commodities for stockpile required materials?

General LEWIS. Yes, this fiscal year 400,000 long dry tons of Jamaican-type bauxite will be obtained by barter for agricultural materials (nonfat dry milk and anhydrous milk fat). The barter agreement is part of a 1.6 million ton acquisition of bauxite from Jamaica. The remaining 1.2 million tons will be acquired by a combination of cash purchase and exchange of excess stockpile materials.

Senator LEVIN. How are the materials in the strategic stockpile allocated in time of war?

General LEWIS. In time of war, materials are allocated by the Department of Commerce in accordance with defense requirements, existing inventories and scheduled deliveries. During the Vietnam War, for example, the Department of Commerce allocated copper and nickel from the stockpile.

Senator LEVIN. Is there any provision in current law allowing for the use of stockpile materials in peacetime?

General LEWIS. Yes. Stockpile materials may be released by the President if he determines that the release of such materials is required for the purposes of the national defense.

NATIONAL MATERIALS AND MINERALS PROGRAM PLAN AND REPORT TO CONGRESS

Senator LEVIN. In April of 1982, President Reagan submitted the National Materials and Minerals Report to the Congress.

In this report, the President stated that since the stockpile is old, a careful review of the quality of stockpiled materials is in order. The President went on to say that the Administration will establish a panel to review the extent of material deficiencies in the stockpile and to recommend remedial action.

What progress has been made in setting up this panel?

Mr. JONES. We have had discussions with the National Materials Advisory Board, professional materials societies and private firms with qualitative testing capabilities. In addition, we have had discussions with the Department of Commerce, the Bureau of Mines, and the General Services Administration. Upon the receipt of additional inputs from the Department of Commerce, we will formally establish the panel and commence the testing program this fiscal year.

Senator LEVIN. The report also states that the Administration plans "to expeditiously dispose of those stockpiled materials held in excess of goals."

General Lewis, your testimony this morning indicates that about $3.7 billion of the current stockpile represents materials excess to stockpile goals.

How long do you expect it will take GSA to "expeditiously dispose" of this $3.7 billion of excess stockpile materials?

Mr. JONES. Disposals for fiscal years 1982–1987 are estimated at $2.4 billion or about two-thirds of the total excess. Even with additional disposal legislation, the remaining one-third of the excess will take several more years to market to avoid disruption of markets. For example, the end of fiscal year 1987, assuming no change in the goal, there will be 100,000 long tons of tin in the stockpile. At present rates of disposal (10,000 long tons per year), an additional 10 years will be required to dispose of this excess.

A key factor determining the length of the disposal program will be the amount of appropriation granted by the Congress. Under the Strategic and Critical Materials Stock Piling Act, all disposals must stop if $1 billion accumulates in the fund before September 30, 1983, or $500 million after this date.

SILVER

Senator LEVIN. Mr. Jones, when do you expect sales of silver from the strategic stockpile to resume?

Mr. JONES. Under the requirements of the amendments to the Defense Appropriations Act we cannot resume silver sales until the completion of an interagency study to review the strategic requirements, industry trends, and various disposal methods. Secretary Watt who is in charge of the study recently indicated that the results of the study will be delayed. Once the study report is issued congressional approval will be necessary before proceeding with any method of disposal.

Senator LEVIN. Mr. Jones, the Omnibus Budget Reconcilation Act of 1981 authorized the sale of 44.7 million troy ounces of silver. The fiscal year 1983 budget shows approximately $400 million in offsetting receipts generated by these silver sales. By my calculations, silver would have to sell at over $8 per ounce to generate $400 million. What is the current market price of silver?

Mr. JONES. A current market price for silvers as quoted by Handy and Harman on June 29, 1982, was $5.61 an ounce. The average price for May was $6.67 an ounce.

Senator LEVIN. Is there any realistic prospect of generating $400 million in revenues from the sale of 44.7 million troy ounces of silver in fiscal year 1983?

Mr. JONES. Considering the delay in restarting a sales program and the lower market prices the original revenue estimates will not be reached.

BUDGET

Senator LEVIN. Mr. Jones, what was the GSA's request to OMB in fiscal year 1982 and fiscal year 1983 for budget authority to purchase new material for the strategic stockpile?

Mr. JONES. GSA's original requests to OMB for fiscal year 1982 and fiscal year 1983 for budget authority for new material for the strategic stockpile were $908.9 million and $862.4 million respectively.

Senator LEVIN. Mr. Jones, what was the level of funding recommended by the program managers of the strategic stockpile for purchase of new material from the stockpile for fiscal year 1982 and fiscal year 1983?

Mr. JONES. The program managers recommendations were the same as the original agency requests.

QUESTIONS SUBMITTED BY SENATOR HENRY M. JACKSON

Senator JACKSON. Is there any interest within the Administration in entering production of critical materials?

General LEWIS. In carrying out the Administration's policy to decrease America's materials vulnerability, the following actions are being taken:

The review of Federal lands withdrawn from mineral exploration is being accelerated.

Obsolete withdrawal orders are being revoked.

Barriers to the development of the mineral resources of the deep seabed are being eliminated.

Excessively burdensome or unnecessary regulations are being reformed or revoked.

Tax incentives are being designed to stimulate private research investment.

The first major acquisition program for the stockpile in over 20 years has been initiated.

The direction of government-financed research is being focused on long-term, high-risk technology that has the best chance for a high return and wide generic application.

Senator JACKSON. Is there any interest within the Administration in entering into procurement contracts with domestic producers under the authority of the Defense Production Act?

General LEWIS. Yes. FEMA has proposed a Defense Production Act, Title III incentive in the form of a floor price arrangement for domestic cobalt production. Under the proposed floor price incentive, participating domestic cobalt producers would be paid the difference between the market and floor prices when the market price fell below the floor price. Other materials also being considered include refractory bauxite, guayule, titanium, and platinum group metals.

Senator JACKSON. Has anyone done a study to determine whether it might be more cost effective in certain cases to build domestic capacity through DPA contracts than to continue to stockpile materials purchased from foreign sources?

General LEWIS. Yes. FEMA has undertaken a study titled "Alternate U.S. Policies for Reducing the Effects of A Cobalt Supply Disruption—Net Economic Benefits and For Reducing Budgetary Gains".

Senator JACKSON. What is the conclusion of the study?

General LEWIS. The study concludes that in the case of cobalt, a hybrid or mixed policy option which provides for annual cobalt purchases of 1.42 million pounds and government-stimulated production of 10 million pounds annually is superior to other options available. This holds true whether the country faces normal market conditions or is subject to a supply disruption in the next 10 years.

Senator JACKSON. What material was involved?

General LEWIS. The material involved in the FEMA study was metallic cobalt.

Senator JACKSON. What is needed in the way of legislation to make it possible for these contracts to be executed?

General LEWIS. Funding through the budget process would be required.

Senator HUMPHREY. I wish to thank the witnesses. We understand the structural difficulties under which they labor and perhaps we can give you a hand by changing them.

Thank you very much.

The record will remain open for 2 weeks for the submission of requested testimony.

The subcommittee stands adjourned.

[Whereupon, at 12:15 p.m., the subcommittee was adjourned, to reconvene at 10 a.m. on Thursday, June 10, 1982.]

STRATEGIC STOCKPILES

THURSDAY, JUNE 10, 1982

U.S. SENATE,
SUBCOMMITTEE ON PREPAREDNESS,
COMMITTEE ON ARMED SERVICES,
Washington, D.C.

The subcommittee met in open session at 10 a.m., pursuant to notice, in room 212, Russell Senate Office Building, Senator Gordon J. Humphrey, chairman, presiding.

Present: Senator Humphrey.

Staff present: Mary Shields, research assistant; George K. Johnson, Jr., professional staff member; and Jacquie S. O'Grady, staff assistant.

Also present: George Kohl, assistant to Senator Humphrey; Robert Nichols, assistant to Senator Jackson; and Frank Krebs, assistant to Senator Cannon.

OPENING STATEMENT BY SENATOR GORDON J. HUMPHREY, CHAIRMAN

Senator HUMPHREY. Today we will continue hearings on issues surrounding the National Defense Stockpile with testimony from members of industry. The order of presentation will be Mr. McMichael, Mr. Mulready, Mr. Melbye, Mr. Andrews, and Mr. Lennon.

Those who have prepared statements may enter them into the record. The American Mining Congress will not testify but I have a statement from them that will be entered into the record.

[Prepared statement of the American Mining Congress follows:]

PREPARED STATEMENT OF THE AMERICAN MINING CONGRESS

Efficient management of the Strategic Stockpile is a goal the mining industry has pursued now for more than 35 years.

The concept of the stockpile is clear. As President Reagan said in his recently issued minerals policy report, "The stockpile should be sufficient to meet military, industrial and essential civilian needs in support of the national defense in a crisis."

The Stockpiling Act provides a direct and useful way to provide a cushion against the consequences of interruptions of supply during periods of national emergency. It is a particularly important element of national defense readiness for those minor metals essential to the national defense for which the United States has a high degree of import dependence.

Stockpile objectives for various materials have been subject to frequent and drastic swings, and today the stockpile is critically short of many materials which it once held in adequate amount.

Over the past 35 years, the targets of some materials have been changed as many as 10 or 15 times. It is obvious that the desire to raise revenues and influence market prices has prevailed over strategic considerations.

Clearly the taxpayer is hurt by erratic policies in setting stockpile goals. Industry is adversely affected by the on-again, off-again history of purchases and sales. The stockpile should be used only for national defense purposes and should not be used for economic or budgetary purposes.

The American Mining Congress welcomes the initiative of Senator Harrison Schmitt of New Mexico in proposing the "Strategic Stockpile Reform Act of 1982" (S. 1982). With modifications that we understand Senator Schmitt is considering, we can support the proposed legislation.

The American Mining Congress has two specific proposals:

1. We believe that the disposal authority for national security purposes in the event of severe interruptions in the supply of any materials as a result of economic conditions should apply only to materials for which the United States has a net import dependency level of 85 percent or more.

2. We believe stockpile objectives should be based on average annual imports of the mineral concerned over a five-year period. This would yield an objective standard less subject to manipulation for transient political or budgetary convenience. Also, it would provide an automatic shift in materials stockpile objectives in line with changes in applicable technology and domestic productive capacity. This concept is spelled out in a bill (S. 1338) introduced earlier this session by Senator James McClure (R–ID). At an earlier hearing by this committee, the American Mining Congress enthusiastically endorsed S. 1338.

The American Mining Congress believes that these two provisions are essential to a sound stockpile bill and should be incorporated in S. 1982.

The American Mining Congress also believes that sound administration of the Strategic Stockpile can be enhanced by creation of a government corporation instead of the Commission concept as called for in S. 1982.

We believe that such a government corporation could employ far wider and more flexible economic and financial strategies which would enable the stockpile to be administered more effectively and efficiently. Furthermore, a government corporation will be less influenced by budgetary considerations.

Senator HUMPHREY. A little background information on Mr. McMichael. He is the administrative agent for the Scaife Family Charitable Trusts. He holds the position of secretary with both the Sarah Scaife Foundation and the Carthage Foundation and also serves on a number of advisory boards, including the Georgetown University Center for Strategic and International Studies, the National Strategy Information Center, Harvard University's Center for Information Policy Research; Fletcher School of Law and Diplomacy International Security Studies, Tufts University; the Institute of Strategic and International Studies of Lisbon, Portugal.

We are glad to have you both with us. I hope you brought all your degrees and board memberships and will tell us how to straighten this mess out.

STATEMENT OF R. DANIEL McMICHAEL, ADMINISTRATIVE AGENT, SCAIFE FAMILY CHARITABLE TRUSTS

Mr. MCMICHAEL. Yes, sir. If you will bear with me just a moment until I get my toys out.

Senator HUMPHREY. You may proceed as you wish. You will anyway, but I thought I would say that.

Mr. MCMICHAEL. Thank you, sir.

As you have already noted, for the record I am Dan McMichael. I work for several charitable organizations in Pittsburgh. I might add that I have had about 25 years of interest in international strategic affairs and some of these interests cover the following areas: The evolution of Soviet doctrine and Western responses to them; the strategy of semantics and communication in shaping public opinion; the devel-

opment of crisis management techniques for low-level conflict situations such as terrorism, kidnaping, hijacking, hostage-taking; and, finally, U.S. vulnerabilities associated with strategic minerals.

First, I would like to congratulate you, sir, and your colleagues for holding this hearing today. It represents a significant step forward in the process of updating our public policies to deal coherently and effectively with the Nation's dependency on strategic minerals.

I would like to take just a moment to trace the evolution, if you will, of public policy interests and concerns about strategic minerals. On the surface, as you know, it is a pretty dry subject. I think anyone in this room, who has been in the 11th grade and looked up on the wall of his chemistry classroom and has seen the chart of strategic minerals and has had the problem of memorizing them, finds that the subject is indeed inherently dull.

Senator HUMPHREY. What we need are strategic spirits.

Mr. MCMICHAEL. That is correct.

Senator HUMPHREY. I know where there are a few stockpiles around here. [Laughter.]

Excuse me. Go ahead.

Mr. MCMICHAEL. It is a tough subject to try to popularize, is what I am trying to stress here. Sure, miners and geologists and other technical people, of course, have always been concerned about the Nation's mineral needs, and technical journals and field reports are full of references to the finite nature of our natural resources. But save for this rather vertical professional interest, there has been relatively little widespread public policy interest until recently, and that was the result of the 1973 oil embargo, to which I will refer to briefly later.

But prior to that, beginning in the mid-1960's, here and there in DOD, in a few scattered think tanks and among a few CEO's around the country, concern began to grow about something this country never really had to think about before—dependency on foreign supplies of minerals and raw materials.

All right, I suppose, if the United States had remained the undisputed global power of the 1940's and 1950's, but as we all know times were changing, moods were changing and the balance of power was changing. So, in the mid-1960's a number of studies were undertaken, a few conferences held, a seminar here and there—all beginning to look at a whole string of "what if " scenarios. The GU Center for Strategic and International Studies, Fletcher, the Institute for Foreign Policy Analysis, the National Strategy Information Center, along with a few other institutions began to stir the pot, so to speak, with what I personally think was some excellent work during that period.

Then came 1973 and the oil embargo that went with it and suddenly you did not need to hold six degrees in something to figure out what "minerals dependency" meant. But there was a problem. People understood oil dependency because they made direct use of it, but to quote Congressman James Santini, "You don't buy cans of cobalt off the grocery shelf."

The policymaking community and public opinion both still had difficulty identifying nonfuel minerals dependency as a serious national problem which not only threatened our national security—and

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this is important—but also our industrial and technological base as well.

Mindful of this void in public thinking, a group of us from across the country came together in Pittsburgh in 1980 to study a whole spectrum of domestic, foreign policy and defense-related issues which one way or another played upon mineral dependency, especially nonfuel minerals. This particular work carries the title, "Resource War in 3D." It brought together a group of 16 panelists representing the mining industry, the end-use industries, the geopolitical community, and they looked at quite a number of interrelated problems as concerns strategic minerals.

Indeed, I should say that Congressman Santini really played a major role in this particular effort by chairing one of the panels. He also gave the keynote address. Following that, in September 1980, he structured hearings on this subject using this publication as the centerpiece and, incidentally, his leadoff witness was now-Secretary Haig.

Following that, also in September 1980, the U.S. Geological Survey issued a statement likewise expressing concern about the dependency problem. At that point the Reagan-Bush campaign team picked up on it and established a strategic minerals task force, of which I became chairman. The task force was to operate only if Mr. Reagan was successfully elected.

So, on November 5, 1980, this task force did indeed go to work. There were 24 very well qualified people appointed to it. It issued a report in December with 33 recommendations—I have it here—to which stockpiling is prominently mentioned.

Following this, in the spring of 1981, the Council on Economic and National Security held—in cooperation with the New York Chamber of Commerce and Industry—a significant meeting in New York City on the subject of "Strategic Minerals: A Resource Crisis"; and I should mention, Senator, that the keynote speaker at this meeting was Senator Harrison Schmitt. His remarks are extremely well done and address the issue of dependency very well indeed.

I don't know if it is proper for me to do so, but I would like to at least suggest that these remarks be entered into the record of this hearing.

Senator HUMPHREY. Certainly.

[The information follows:]

EXHIBIT 1

[May 22, 1981, New York City]

STRATEGIC MINERALS: A RESOURCE CRISIS

[Published by the Council on Economics and National Security (CENS), William C. Mott, Executive Director, A Project of the National Strategy Information Center, Inc.]

HON. HARRISON H. SCHMITT, KEYNOTE SPEAKER

Thank you for those moving words. You know, the real qualifications I have for being with you today have nothing to do, unfortunately, with what has been mentioned in that very generous introduction. It really goes much farther back to my father, who was an economic geologist, a consultant in the hard minerals industry, and with whom I spent most of my younger days wandering not only above ground as his plane table operator but also as sampler under-

ground. Some of my earliest memories are of being involved in the mineral industry, literally from underground up.

My intention as a young student out of Cal Tech was to go into economic geology and, as a matter of fact, the teaching fellowship that was mentioned was one under a distinguished international geologist, Hugh McKenstry, whom many of you here today, I'm sure, knew very well. He was a great man in economic geology and a tremendous person, and I was working very closely with him when he lost his battle with cancer. I went on to somewhat more academic pursuits then, at Harvard, in hardrock geology, but not directly associated with the economics of geology.

However, by going to the moon I got thrust right back into the middle of economic geology, and if any of you has access to about $20 billion worth of capital that you can stand to invest for the next 20 years, I think I have a great titanium property for you. The soils of the Valley of Taurus-Littrow contain 10 to 13 weight percent T_iO_2 in the form of ilmenite, and I have a feeling that, with about that amount of capital and faith and risk-taking potential, we could develop quite a property up there; not only would it have pre-mined ilmenite for separation and refining, but a very easy transportation problem getting it back to earth. You realize now the moon has only one-sixth of the earth's gravity and, with a little bit of a push and a little bit of guidance, you get that out of the lunar influence and it will fall right back into this gravity well that we call the earth. So there are many ways to skin a cat, and the titanium cat, at least, might be skinned by this kind of investment. I want all of you to think about that and let me know because I do hold, at least in my own mind, the right to that particular property.

The credit for what has been happening in public awareness, corporate awareness, and government awareness of the magnitude of the strategic materials and minerals crisis we face is in large part due to you here in this room today. Most of the current players in the game are here. This is probably the greatest concentration of people who are going to influence the solutions to this very serious problem, and, as far as I'm concerned, you can have all the credit for getting it done, if you will in fact go to work and get it done. It has to happen. We have no alternative.

I said words similar to that in 1969, in Calgary, Alberta, at an AAPG [American Association of Petroleum Geologists] meeting about the impending energy crisis, and a lot of other geologists at that time were saying the same thing, but nobody listened. We probably didn't know how to make people listen. We had better learn our lesson because if we do not capture the attention of the press, the attention of other senators and congressmen in the Congress, the attention of this administration at all levels, then we will be faced with an embargo, with a threat of interdiction of our strategic minerals supply, or a combination of both, that will make the so-called energy crisis pale into insignificance.

The difference between these two crises is that, at least for energy, we know what our options for independence are. We can define them. We have sufficient oil and gas resources to solve our short-term problem, particularly when integrated with coal and an acceleration of our nuclear capabilities. We have sufficient understanding of the broad technology base necessary to develop, in the next 50 to 100 years, renewable energy sources of various kinds; but when you look at the strategic minerals on which we are dependent, on foreign imports from unstable or unfriendly political areas of the world, we have few alternatives to find. That's our problem. That's your problem and the country's problem.

Congressional interest is rapidly increasing. Our good friend, Congressman Jam Santini of Nevada, has to get a great deal of the credit for having awakened the House of Representatives to this problem. Our good friend, Jim McClure, now Chairman of the Energy and Natural Resources Committee of the Senate, has spoken for years, well before I reached the Senate, on this issue, with great knowledge and concern as he is from the State of Idaho. One of the first discussions I had on the floor of the United States Senate about this issue with another senator was with Jim McClure, on cobalt. As you know, that issue was raised in the discussion of the Idaho Wilderness Legislation, and began, at least in part, to focus some of our colleagues' concern on this.

In the Commerce Committee, my Subcommittee on Science, Technology and Space has taken the responsibility for bringing the jurisdictions that that committee has to bear on this issue, and I am not yet happy with the response of the administration; but I also understand the problems they have in developing both the personnel and the infrastructure to work with us on this

subject. I have great confidence that Secretary Haig, Secretary Baldridge, Secretary Watt, Mr. Allen of the National Security Council, all have a tremendous depth of understanding about the seriousness of this issue, and have a great deal of will to see that it is resolved and that a broad-range plan for strategic mineral activities is, in fact, developed in a fairly short period of time.

Unfortunately, as with any administration, there are other priorities, such as the economy, our national defense, specifically, that have consumed most of their energies. In addition, there is the basic problem of getting all the people in place to be able to carry out a specific plan of attack or even to develop a plan of attack in this area. But with people like Dan McMichael providing excellent reports, as chairman of the Strategic Minerals Task Force, with many of you involved in that effort, I think we will see before the end of the year some major movement in the development of a plan and activities consistent with the Congressional mandate of last year which we were able to get through the Congress and signed into law, the National Strategic Materials and Minerals Act of 1980. It was a reiteration, to some degree, of the Act of 1970, but nevertheless one which began again, or continued, the process of getting the attention of the Congress, the Administration, and the national media.

You may have noted that, over the last 12 to 18 months, many of the trade journals, many of the business and economic journals and the major national newspapers are carrying the kind of articles and op-ed pieces and others that are necessary to build this level of public, corporate and governmental consciousness of the magnitude of the issue. We must keep it up. Those of you who have any opportunity to write, to talk with the media must continue to provide that kind of education, not only for the people that the media reach, but for the media themselves.

This is one issue where there has to be an understanding of the depth of the crisis we face, so that when other steps are taken, such as a modification of arrangements with South Africa, a modification of arrangements with our friends in Latin America, that are related to circumventing or preventing the actual crisis, that there is an understanding of what has to be done, of the balance that has to be struck, if we are going to in fact survive over the next decade or so, as we develop alternatives to our strategic minerals dependence. Now judging from the agenda of this conference, clearly there are not many specifics you haven't already heard, about the depth of the crisis, the dependency that has grown by leaps and bounds over the last decade or so, the difficulties that are faced by our own domestic industry in terms of the national economy and the tax structure, the regulatory structure, all of the things that have accelerated our dependency with regard to a variety of strategic minerals.

In addition, one might say that our foreign policy in this area had been drifting for several decades. Under the Carter administration, it actually began to move backwards in terms of finding a solution to these problems and developing the necessary relationships with our friends throughout the world that will enable us to move through these very troubled times safely. We must develop and implement a national strategic minerals and materials policy. There is absolutely no alternative, and it involves almost every area of government, as well as all of you in the corporate world. It's important to look at the charts I saw here, one which described the F-100 Pratt and Whitney engine [see inset, front cover—Ed.] and its dependence on strategic minerals imports. There is another one over there [see back cover—Ed.] with the beautiful Columbia space shuttle that has flown so successfully recently, showing its dependency and the dependency of our national space capability on these materials.

The impediments against development of a domestic resource base are probably some of the most serious to be overcome. I can offer you some encouragement in this regard because Secretary Watt, at the first hearings that we had this year in the Science, Technology and Space Subcommittee, showed tremendous enthusiasm for taking the lead in this aspect of our national problem. He's serious about it, in terms of doing everything he can to accelerate our independence of foreign energy supplies, and at the same time to provide opportunities for at least locating potential targets of strategic minerals in the public lands and underneath them.

But, in addition, we must move forward with the economic recovery plan that is presently being considered in the Congress and has been put forth in broad terms by the President. Otherwise capital availability will be a very serious

question for the development of domestic supplies. Environmental law must be looked at very carefully in order to have access to potential supplies. There is a great lack of geologic information for a variety of reasons, in part because the U.S. Geological Survey, of which I have very fond memories, has become to a great extent a regulatory agency and not a resource agency and a scientific agency, as it should be. Jim Watt has indicated to me, and in his commitment to select a professional director of the Geological Survey, that he believes that also. I am looking forward to seeing, in the not too distant future, a major restructuring of that agency so that they can get back to doing what we all want them to do: define the broad resource potential of the country.

Maybe one of the most serious problems we face is that of trained people. We have a deficiency of people with advanced degrees in the mineral industries, and related engineering and scientific professions, that is as serious as our dependence on mineral imports. The Science, Technology and Space Subcommittee, among its other activities, is examining this issue in great detail, and the preliminary estimates are that we have an annual shortfall in all science and engineering professions—an advanced-degree shortfall—of close to 15,000 young men and women a year. Fifteen thousand on top of an already significant deficiency. A back of the envelope calculation the other day, in one of the hearings, came up with a number that it's going to cost us, collectively, at least a billion dollars a year to reduce that shortfall to zero, and that only includes current activities. It doesn't include the cost of a broad-scale development of synthetic fuel, of the acceleration of research and development in our national defense, or of the requirements to maintain an active and useful intelligence agency. It is just what you and the corporate world are demanding today and what the government is demanding today from the university system.

And let me tell you, ladies and gentlemen, that the corporate world is eating its seed corn and shooting its farmers on this issue of the development of human resources for science and technology. You are out there, and you are recruiting the best people at unbelievable salaries as soon as they get their Bachelor of Science degrees and at the same time you are hiring away the professors who ought to be there teaching them. That can't continue. And if your stockholders haven't taken you to task on this, they had better start doing so, because you've got to begin to invest in the educational system of this country. You're not going to see the government, for the next few years at least, put a billion dollars a year into this particular problem. It is in your interest and in the national interest to begin to be part of the educational system again, and in a real and substantive way: you have to convince your investors and stockholders that that is the most important thing you can do for their future. Because if it continues, everything that I'm talking about here, everything that you've been talking about here today, is just so much smoke. We won't have the people to carry out decisions.

I could go on and on with many other issues that relate to this problem, and I guess that's what makes this effort so exciting. Every time you turn around you find another relationship between some area of our society, our government activity, and the strategic minerals crisis. And that's why the problem is not only exciting but very difficult. Integrating all of those factors together is very, very important and very difficult.

I would say also, in closing, that we will be begining later this year, hopefully not much later, a series of in-depth hearings on how the Defense Production Act and the authorizations under that Act can be used to provide some short-term relief from some of these problems, and some long-term stimulus to development of domestic mineral production. That is the basic reason why the bill I introduced, that I'm sure will be passed by the Congress shortly, will have only a one-year extension of the Act to insure that the Congress moves forward this year on examining what are our options under it. There are many modifications and expansions of those options that are necessary to see us through this period of crisis.

(Following is the discussion that took place after Senator Schmitt's speech.)

An ATTENDEE. Senator, you talked about strategic resources and their obviously tremendous military as well as industrial significance. What is the Soviet Union doing about this? Are they alert to it? Are they moving on it?

Senator SCHMITT. That's an excellent question. The Soviet Union obviously has a better historical perspective of the importance of mineral resources in the broad scheme of things, of world history, than has the United States since World War II. And Simon Strauss, our expert on this, has made it very clear

that the Soviet Union has consciously reduced or eliminated any dependency on imports of minerals.

I wouldn't believe anything right now that the CIA or anybody else tells you about a looming import crisis in the Soviet Union. They're not going to let that happen; one way or the other, especially if we continue to sit on our rears, they are going to insure that they don't have a mineral crisis—that's one of the few advantages of not having to deal politically with the people of the country: you can make those kinds of broad historical analyses and implement policies to carry them out. I am in no way advocating that kind of system for the United States, because I think that we can solve our problems without resorting to that approach, and defeat their purposes, once we decide to act.

One aspect of Soviet policy that has been related to this resource war is to develop a blue-water navy, for the first time in their history. It is rapidly becoming the best and most pervasive navy in the world. What does that have to do with us? It has to do with the threat to interdict our supply lines—they don't have any. Why else would they be developing a blue-water navy?

Furthermore, everywhere you turn, look where they're causing the most trouble in Africa, the kinds of problems that are developing in Central America. El Salvador is just the start of a problem. The problem really is waterways like the Panama Canal and the resource base that is represented by Mexico and northern South America. Soviet policy is very consistent, and will continue to be. We need to develop as consistent a counter-policy in defense, foreign policy, and our own domestic resource development as they have in terms of their aims for world domination.

An ATTENDEE. May I make a comment and ask a few questions, please?

In Congressman Santini's hearings recently, two things happened that I thought were of special interest. One, Congressman Santini criticized the Carter administration for, in effect, vetoing a lot of substantive recommendations that he and others had made on policy changes, because of the Democratic Party's political philosophy, with regard to critics of some of the things they wanted to do domestically in mining and foreign policy concerning Africa. He also had Al Haig testify, before he became Secretary of State and was still President of United Technologies, on the importance of this. The bipartisan flavor of that hearing was evidenced by the fact that the ranking Republican on the House Foreign Affairs Committee, Congressman Broomfield of Michigan, put his testimony in the Congressional Record of a hearing run by a Democrat who was the chairman of that subcommittee.

The two questions I would like to ask you are the following: One, do you think the same political problems exists with the Reagan administration that might negate some of the recomendations expected to come out of the Congress to give leadership in this area? Two, how important do you think it is, and what prospect is there for strong bipartisan cooperation in the House and Senate to get this job done?

Senator SCHMITT. The answer is that, no, I don't see any difficulty now in the Reagan administration. Its principal leaders obviously have the experience and background to enable them to understand the problem, and they've made statements that indicate they do understand it, as the President himself does.

I think it will continue to improve, if that's possible, under the current leadership in the Congress. We've had absolutely no problem working with Congressman Santini and his committee, with Jim McClure or with anybody who is interested and aware of this problem. The Armed Services Committee is aware of it. Senator Warner is Chairman of the Subcommittee on Energy and Mineral Resources, and he and I have begun to talk about the issues. In the Defense Appropriations Subcommittee, Ted Stevens is the chairman, and obviously he is more aware of these problems as a result of Alaska's great potential to help us solve them. So I'm very optimistic about that.

An ATTENDEE. Senator I was glad to hear your remarks. I wrote a letter to the Chairman of the Armed Services Committee about seven or eight months ago, and never even got an answer, suggesting that the Subcommittee of the Senate Armed Services Committee should take a look.

Senator SCHMITT. Well, there is a problem within the Defense Department, reflected to some degree in the Armed Services Committee. Because they are the recipients of the largesse of the taxpayer, there is a tendency to go back and look at all those things you wish you could have bought ten years ago and buy them now; that tends to dilute some of the more critical current

problems we have in terms of our national defense, one of which is to become less dependent on imports of strategic minerals.

I asked a question just early last week, in the Defense Appropriations Subcommittee, of some Air Force men in their procurement areas. The question was whether or not in their source selection boards and in their RFP's, their Requests for Proposals, they consider in any significant way whether the equipment they are asking to buy is going to be dependent on foreign suppliers for its manufacture, and they didn't have an answer. They said we don't think that we consider that and we're waiting for a final answer. So the DOD has not yet focused on the problem to the degree that I would like to see.

For example, defenses against the Backfire bomber. The Soviet Backfire bomber is probably more of a threat to our supply lines than even the blue-water navy I mentioned before. But there really isn't much thought given to how you defend the supply lines of the free world against that kind of threat—a long-range, essentially intercontinental, bomber that has a capability of interdicting surface ships very severely.

So we've got a long way to go, and I'm sorry that they haven't answered your letter, and we'll try to keep pushing them a little bit. But they're still a bunch of kids in a cookie jar, and I think it's going to be up to the Appropriations Committee, in part, to bring some realism into the priorities that are set for our national defense establishment. I particularly hope that we can make them recognize that this resource war is as much of a threat to international security as any piece of military equipment the Soviets might have.

Mr. WONG. Recently I have letters from China. Kwangsi Provice has opened up mining, and we have more than seven or eight materials which are very useful, but all morning I never heard one word mentioned that we have supplies for you. It ought to be opening up a big field. I am sure China and the United States could be equal partners in this. And in all the things that we need what else can we supply you? You open your arms, I'm sure they will be glad to supply you. And I'm an importer-exporter. I'm retired, but because of this development I said, wait a minute, I better come in and say a word, because the Chinese government didn't have time, or it was short of time, to be represented at this conference. I just wanted to say a few words. I belong to the Jia-Wong Associates and I don't want to put a plug in for business, but just let you know China is ready to help.

Senator SCHMITT. The only thing I would say in my own [illegible] not having mentioned this potential, is that I did say "diversity of [illegible]. At least in the short term, the world can protect itself against embargoes or interdiction threats by having as diverse a supply as possible. China certainly represents a major potential in that area, and I think it is going to have to be pursued as other arrangements will have to be.

An ATTENDEE. Senator, I'm curious to know what your reaction is to the proposal, embodied in Congressman Santini's new bill, to create a permanent minerals council in our government to coordinate activities.

Senator SCHMITT. My reaction to the entire bill is that it is an important vehicle for discussion, but that we're going to have to make sure that the administration decides, in consultation with the Congress and others, what path it wishes to pursue.

One of the issues that the council proposal brings to mind is whether we should have a major economic stockpile rather than a war preparedness stockpile. The two are not incompatible, but I think the emphasis has to be on economic preparedness in this day and age more than on war preparedness. That is, the threat of an embargo in the absence of war is much greater than a protracted conflict that would trigger the need for a stockpile, or the use of a stockpile.

But I don't think we know how to manage a stockpile, or have managed it well in the past. It's been either technically mismanaged or politically mismanaged too often, and we must find some kind of mechanism by which the stockpile can be managed better. Now Mr. Strauss and I had a conversation a few weeks ago during which we explored this, and frankly I don't remember that we came up with an answer. But one thought that has been surfacing again and again, and it may actually be included in some of Dan McMichael's recommendations, is that we look at a Federal Reserve Board model—an independent board—under certain guidelines, certain constraints, through which that stockpile can be managed.

One of the problems we have with the existing Federal Reserve Board is that they keep thinking they can measure money supply on a weekly basis, and I don't think they can. And we all tend to react to that, and they do too. But those kinds of details can be worked out, if we decide that that's the best way to manage the stockpile. As I understand the council proposal, it has a broader purpose, and that is something we must consider. I'm not convinced yet that a council of that kind is necessary. I frankly don't know what is the best way to do it. I still have a very open mind on it.

An ATTENDEE. Do you support developing Federal funds more and significantly easing environmental standards in order to develop strategic minerals?

Senator SCHMITT. I definitely support the multiple use of Federal lands and the development of them in ways which, I believe, clearly can protect significant environmental values. The problem of interpretation of existing environmental law through regulation is that it has been an adversarial interpretation, a restrictive interpretation.

We need a technical understanding of what is significant, in terms of serious values, and what technically we can do through research and development, through new technologies, to provide that balance between protection and development. But it has to be a two-way street, and it has not been. The encouraging thing I find in Secretary Watt's philosophy is that we can manage public lands for the protection of those lands for the enjoyment of future generations, as well as provide adequate development in the national interests. We have to be willing to do both.

Mr. BORETSKY. You mentioned Secretary Watt as the only eminent specialist, or official, who is sensitive about the supply of minerals to the economy and the national security. Mr. Baldrige is also very knowledgeable and very sensitive.

Senator SCHMITT. He is. As you may recall, I mentioned Secretary Baldridge. Mack Baldrige happens to be a constituent of mine, of sorts. He owns a ranch near Corona, New Mexico, and his problem is that the Commerce Department has in the past not really organized, or thought through, this problem of how it relates to the strategic minerals issue. But I do know from personal conversation with Mack Baldrige and his staff that they are fully committed to moving forward in this area, to organize themselves internally to deal with it; they will be, I think, an equal player with Secretary Watt. But I must say that Secretary Watt has certainly moved out more vigorously at this time than has the Commerce Department. However, I fully expect Commerce to catch up.

Mr. BORETSKY. Well, I have now a more substantive question. In your comments you stressed domestic development of mineral resources as providing the ultimate solution. However, in our conference today we have heard emphasis that we will continue to be heavily dependent into the twenty-first century, and having really the resource war on our hands, we should address ourselves primarily to the foreign policy implications of our dependence without obviously scaling down the domestic development of mineral resources. Well, we also have a proposition, a serious proposition, that the only way, in the given political situation, we can really defend our supply lines is by organizing a new oceanic alliance, as Admiral Johnston called it. How would you go about inducing West Germany to depart from its course of Finlandization, Japan to embark on the course of self-defense?

Senator SCHMITT. I think the best thing to do is to make sure that we have a strong, consistent and integrated strategic minerals policy that involves not only domestic resource development but also ocean resource development. We need to have the defense systems necessary to protect our supply lines, and a foreign policy that is oriented toward building a diversity of supply where that supply is absolutely necessary. If we have them, then I think you will see the other nations of the world develop confidence that we know what we're doing, and they will become part of such an alliance. Thank you very much, Ladies and Gentlemen.

Mr. MCMICHAEL. The McGraw Hill conference, which some of you in this room attended last fall, further brought to the public policy-making community details of the problems concerning strategic minerals dependency.

Of course, as you know, during 1981 the President established a Cabinet council which under the direction of James Watt and Perry Penley (who was a member of the strategic minerals task force),

has done a number of things having to do with the whole subject of strategic minerals.

Finally, as you also know, the President issued his report a few weeks ago, which he is required to do, on a national minerals program plan and report to Congress. It is interesting that in this report he makes reference to the strategic minerals task force and its report. It is also interesting that he followed fairly closely a number of the key points raised and recommendations made in this task force report.

Now, of course, today we need to have this hearing on an issue that is not only central to the problem of mineral dependency but also is absolutely critical, in my judgment, to the continued well-being of the Nation, and this has to do with stockpiling.

It is not only that we need to have reserves of nonfuel minerals and materials, but also, equally important, how we select, manage, and use these vital natural resources.

Given this background, this evolution of policy thinking and awareness over the past 10 or 15 years, perhaps you can understand why I am so glad to be with you here today.

Now, let me please summarize briefly why this hearing is so very important, because it addresses the problem of stockpiling that, if effectively solved, can play a significant role in protecting the vital interests of the Nation.

Why do I say this? Because, as we all know, the U.S. industrial infrastructure, defense capabilities and economic viability rest on adequate supplies of some two dozen or so nonfuel minerals. Of these, the United States currently is more than 90-percent import dependent on 13, and more than 50 percent import dependent on an additional 13. As a case in point, I have a chart (figure 1) here which I will submit for the record, the one that was used in the strategic minerals task force report, in which we set up seven strategic minerals, all of them in which we are 90 percent or more import dependent, and we laid out their indispensable use.

It is a very interesting chart, when you consider that only seven strategic nonfuel minerals are listed. And when you also consider that we are 90 percent or more import dependent, it makes quite an impression.

[The chart follows:]

FIGURE 1
KEY MINERALS WHERE U.S. IS OVER 90% IMPORT DEPENDENT – 1978*

INDISPENSABLE MINERALS or ONES CRITICAL TO HIGH QUALITY in the production of:	Bauxite 93%	Chromium 92%	Cobalt 97%	Columbium 100%	Manganese 98%	Platinum – gr. 91%	Tantalum 97%
Basic steel					X		
Stainless, tool, alloy steels		X	X	X	X		X
Basic aluminum	X						
Aluminum alloys	X			X	X		
Nickel-based and cobalt-based superalloys	X	X	X	X	X		X
ITEMS MADE USING ABOVE BASIC PRODUCTS:							
Ordinance (tanks, fighters, bombers, missiles)	X	X	X	X	X	X	X
Power generation (turbines, controls, transmissions)	X	X	X		X		
Electric motors, equipment (locomotives to mixers)	X		X		X		
All electronics (appliances, computers, phones, TV, navigation, controls, telecommunications)	X	X	X	X	X	X	X
Nuclear applications	X	X	X	X			X
Jet engines, gas turbines (hot parts)		X	X	X		X	X
Batteries, fuel cells					X	X	
Aerospace (airframes, hulls, rocket engines)	X	X	X	X		X	X
Projectiles, gun barrels, machine parts, crankshafts, axles, gears, machine tools		X	X	X	X		X
Mining, drilling (valve stems & systems, drill bits)		X	X		X		
High tech. medical (cryogenics, heart-lung, scanners)	X	X	X			X	X
Petroleum processing, drilling		X	X	X	X	X	X
Chemical processing		X	X	X	X	X	X
Glass products			X			X	
Pharmaceutical production						X	
Food processing, enrichment		X	X		X	X	
Synfuel production		X	X	X	X	X	X

NOTE: Since effective military technology requires highest possible performance, substitutes are not desirable. However, substitutes for purely commercial and civilian items are possible on a mixed basis — recognizing lower quality and performance would occur.

*U.S. Bureau of Mines

Mr. McMichael. Now, you combine these nonfuel elements of foreign supply with those concerning our energy needs—that is, oil—and the cumulative effect of all of our mineral import dependencies constitutes, in my judgment, possibly the greatest direct threat to our national interests since the end of World War II. It is a view that a number of recognized experts have and I share that view.

This occurs because this form of dependency makes the Nation highly vulnerable to foreign power projections and other circumstances that either have or may occur outside the traditional limits of our sovereignty. This vulnerability centers around one thing—cutoffs. Whether sudden or gradual, any significant interruption of vitally needed minerals from foreign sources would lead to equally significant disruptions across the spectrum of American life. These would adversely affect the national security, our industrial productive capacity and the economy—income, jobs, inflation, living standards.

Obviously, the degree of such supply interruption would determine the severity of domestic disruptions. But disruptions there would be the consequences of which could in turn adversely affect the United States' position as a world power.

Now, as I mentioned earlier, we already have had one experience with cutoffs which indeed created severe disruptions to our economy and lifestyles, and that is the 1973 oil embargo. And the subsequent cartel success of OPEC has left us still with some pretty unpleasant economic dislocations with which we are all too familiar. The pain of that experience, as I mentioned earlier, has led to some careful examinations by a growing number of specialists as to what might happen to us were another embargo to hit us unexpectedly, this time involving critical nonfuel minerals.

One fairly recent study, for example, looks at an admittedly worse case scenario involving a sudden loss in foreign supplies of chromium, absolutely essential to the making of stainless, tool and alloy steels in all of the derivative products noted in the foregoing charts. In this scenario, which is built on sophisticated economic modeling, a politically unstable South Africa (world's largest supplier) cuts off all chromite to the United States and other Western nations, an action that also disrupts half of Zimbabwe's production. Also, Russia and Albania refuse to make sales to the West, in this scenario, so that the combined result is a 65 percent cutoff of chromite supplies to the non-Communist industrialized world.

Now, under such circumstances—and admittedly this is a worse case situation but it has some very interesting methodology connected with it, so it cannot be taken lightly, in my judgment—but under these circumstances, the study concludes, the United States would suffer the loss of at least 1.05 million jobs for a period of 5 years, and the study concludes that this is a conservative estimate.[1]

I mention this only to underscore the point that as of today we do not have a live crisis such as the 1973 oil embargo in strategic nonfuel minerals to which we can refer, but there are some studies being done that do begin to sketch out what the consequences would be should major supply disruptions ever occur.

[1] See "Critical Issues, Strategic Minerals, The Economic Impact of Supply Disruptions," by James T. Bennett and Walter E. Williams. The Heritage Foundation, 1981, Washington D.C., pp. 47–54.

So, keeping all of this in mind, I would say—and this is pretty obvious to all of us—that without the minerals it needs, the United States cannot maintain its industrial infrastructure and thereby its economic strength, and without these the Nation cannot hope to retain its geopolitical strength and independence which, to close the circle, it must have in order to assure its accessibility to foreign supplies of minerals.

Thus, the Nation must deal with a circle of vulnerabilties that link together virtually every basic component of its domestic and international life. Let this circle be broken outright or badly frayed along its course and disruptions in the national life will result that, if allowed to persist, could do serious damage to United States vital interests.

Now, the circle of vulnerabilties already is fairly well perceived by the Nation's leaders insofar as oil dependency is concerned. Given OPEC and the Middle East crisis, the linkage between our foreign and domestic policies and assured access to imported oil is now pretty well understood. But not so well understood is that the same linkage applies to nonfuel minerals.

I would like to take a moment now to discuss some of these vulnerabilities and as I go through them I think you will see quite clearly where, how and under what circumstances stockpiling becomes terribly important as a safety device.

Central to all the discussions concerning strategic minerals is the matter of "free access" to foreign supplies. It is important that we define what we mean by this. It means a climate that permits enterprises in the United States to bid and participate freely, openly and equitably in international settings for the minerals essential to the Nation's needs, whether these enterprises are defense procurement or the mining and related processing industries, or end users such as steel, aluminum, aerospace, or electronics industries.

Thus, the issues that I am summarizing here center around what, where, when and how the Nation is to preserve free access to foreign supplies of minerals this Nation must have if we are to preserve our industrial and technological base and thereby preserve our lifestyles and, most crucial of all, our jobs.

Now, where is the United States most vulnerable? Again, a number of recognized experts conclude that key U.S. foreign vulnerabilities, as far as access to strategic minerals are concerned, presently are with the following:

First, of course, is the Middle East. The vulnerabilities there, I think, are quite obvious.

The second area is the whole of southern Africa, because without free access to this region absolute by critical supplies of manganese, cobalt, chromium, and the platinum group metals could be denied the United States, with devastating effects on its industrial infrastructure.

Another area of vulnerability is the Central America-Gulf-Caribbean Region. Beyond Jamaica as a major supplier of bauxite, it is the sea lanes that are critical to the national interest. There have been some estimates that any where between 75 percent and 80 percent of our imported minerals are transported through these waters to fixed facilities along the Gulf and eastern ports, thus, they are vulnerable

to interdiction, due to Soviet naval presence in Cuba and other destabilizing influences in Central America.

Finally, that brings me to yet another vulnerability and it has to do with the influences of the Soviet Union. In regard to strategic minerals, we have to look at the Soviet Union as a hostile power which is developing the capabilities through policies and actions to impede United States and allies access to international natural resources.

If you saw Secretary Weinberger's statement in his book on Soviet global power projection, on page 97 he underscored this point.

Now, in regard to Soviet influence, please note where the United States has the highest degrees of resource dependency: As I mentioned, the Middle East and southern Africa, plus the obvious shipping vulnerabilities in the Caribbean, Gulf, South Atlantic, and Indian Ocean areas. Note also the following:

First, there is a high degree of active Soviet interest in establishing hegemony over these very same regions via its own and proxy forces in Cuba, Grenada, El Salvador, Nicaragua, Angola, Ethiopia, Yemen, and Afghanistan.

Second, there is its deployment of a four-ocean navy capable of interdictions.

Third, the Soviet minerals trading pattern is changing in a way that could endanger free world access; that is, by importing certain strategic minerals for itself and Eastern bloc allies from countries whose output traditionally has gone mainly to the United States and its allies.

So, where do all of these vulnerabilities leave us? Must the United States and its Western European, and Pacific allies, be forever dependent and thus vulnerable on the imported source of minerals, both fuel and nonfuel? Is there no way we can get out of this dependency box? Probably not. At least not entirely. But that does not mean that we as a Nation, with the cooperative support of both the public and private sectors, should not be doing all in our power to lessen our vulnerabilities whenever and wherever possible.

One obvious way, of course, is to lessen our dependence on imports. In the case of oil, we are trying to conserve and to develop various alternative sources of energy that will leave us less dependent on the Middle East as our principal foreign source of supply.

In the case of strategic nonfuel minerals, a number of things are going forward, as you know, under this administration and in the House and Senate. Essentially, what is happening is that Congress and the executive branch are trying to hammer out a set of nonfuel mineral policies designed at least to alleviate our very high degree of dependency on foreign supplies, as evidenced by this hearing today.

For instance, there is considerable debate as to whether or not and to what extent our public lands can and should be made available to mineral exploration and development, and just how this issue is to be resolved is still very much up in the air.

As far as substitution is concerned, well, would it not be nice if we could substitute certain key strategic minerals so that we would not be import dependent? It is a lovely thought and in a number of product application areas it is certainly feasible. But generally speaking it would take years of comprehensive research and development in order

to make substitutions work on really meaningful scales. But that would only partially alleviate the problem of import dependency.

For instance, there is no real known way yet to make a corrosion-resistant steel without chromium. So what do we do in the meantime, while we wait, first, for the necessary incentives to encourage extensive R&D and, second, wait for our technological brain power to come up with substitute materials? Clearly, we must continue to use foreign sources of strategic minerals.

We have talked about conservation and recycling. Yes; that is a good idea. Anything we can have or reuse will help take the pressure off our dependency problem but, realistically speaking, conservation and recycling will not in and of themselves solve our dependency problem.

Deep seabed mining? Well, there is plenty of promise here, especially in the central Pacific area, that could possibly make the United States virtually self-sufficient in cobalt, manganese, and nickel by the end of the century. But there currently is no adequate legal basis for U.S. companies to invest in the high cost of sophisticated exploration and mining ships and processing shore facilities. That is partly what the Law of the Sea Treaty is all about and why this administration has expressed concern over the provisions of the draft treaty.

When, if ever, the United States will be able to apply its technology and enterprise to deep seabed mining remains to be seen.

So, the bottom line is this: Like it or not, our Nation will continue in the foreseeable future to be dependent on foreign sources of minerals so vital to the economic health of this country; this in spite of whatever we try to do domestically to minimize the vulnerabilities associated with this import dependency.

This means that our foreign policies, our alliance policies, our defense policies, our domestic policies must take into account in a much more comprehensive way that, because of this minerals dependency, others well away from our borders are now placing their hands on our economic throttles; not by assault forces up the Potomac River, which is our classical version of the ultimate economic threat, but through other power projections far more subtle because they are largely unseen and thus not readily perceived.

Thus, in the meantime, as we strive to maintain free access to foreign supplies, what becomes the most prudent and sensible thing for us to do at home? Of course, it is to store enough imported minerals and raw materials to see us through any major crisis—from a declared war through insurgency, revolution, and terrorism, to punitive cartel actions, in which supplies of imported natural resources are cut off from us.

We are all familiar with the term "seed corn." Well, strategic minerals are the industrial and postindustrial equivalents of seed corn. As an agrarian nation, we learned to save our seed corn for the next harvest. That dictum is no less critical today than it was 100 years ago, only this time the seed corn becomes our natural resource needs.

We can do no less than our forebears in the prudent management of our lives, and a coherent, depoliticized and responsive stockpile program is an absolute necessity to the well-being of this Nation.

Thank you, sir.

Senator HUMPHREY. Thank you, Mr. McMichael.

How would you raise the sufficiency of the stockpile as it now exists?

Mr. McMichael. From what I have seen—and there are others here who are much better qualified technically than I—the sufficiencies of the stockpile, to say the least, are out of balance. I think my concern has as much to do with the management of the stockpile program as it has occurred over the years as to what is in it.

One of the things that has been of concern, for instance, to the task force and other groups with whom I have worked has been the problem of politicizing of the management of that stockpile. So, it seems to me that in addition to whatever material imbalances there are—and I know that there are a number of them—that of equal importance is the management mechanisms. And the mission orientation of the stockpile needs to be considerably ungraded and improved.

Senator Humphrey. Then you are critical of the management. You suggest it is politicized. What do you suggest we do about it?

Mr. McMichael. Very frankly, I think you are looking into legislation right now proposed by Senator Schmitt, S. 1982, with—and I am not sure where it is in the pipeline but I know that it was on page 11—very good inputs from Senator McClure, that, in my judgment, coupled with Senator Schmitt's thinking on this subject, can go a long way to establish an independent and, hopefully, as nonpolitical as one could reasonably expect, an instrument to manage our stockpile needs.

Senator Humphrey. You view the Schmitt proposal as a solution to our problem?

Mr. McMichael. Basically, yes, but let me stress this: There are a lot of technical parts of the legislation as it now stands that I know, in talking with a number of individuals who are concerned about this legislation, still need to be fine-tuned and so forth. But, basically, I do believe that this legislation would go a long way in solving some very serious problems in the whole stockpile area.

Senator Humphrey. Apart from the management is the challenge of funding of shortfalls. As you know, we have some $10 billion in shortfalls. That is an enormous shortfall. As far as I can see, there is no real plan to attack that any time soon. We are nibbling away at it peacemeal. The reason we are not doing more is obvious.

Do you have any thoughts about the financing of this thing, how we can correct the deficiencies in a more sensible period of time? At the present pace, it would take, according to Senator Levin's calculations, 83 years at which time the present goals would no longer match the requirements. Clearly, we have to find out some way to finance this. Do you have any ideas? Does the Scaife Foundation want to help here?

[Laughter.]

Mr. McMichael. I don't believe it is in our mandate and that of the trustees; however, I can always ask.

First of all, there sit behind me a number of experts—and I am thinking particularly of Mr. Andrews who has followed the mechanisms and technology of the stockpile system and who is probably—well, I know he is—far better equipped to answer that question than I am.

Let me say this: I believe from what I have seen that since there are imbalances presently existing—by that, I mean surpluses of cer-

tain minerals and materials that could probably be disposed of—my understanding is that it would be a fund that a Strategic Stockpile Commission would operate through—I think it is called a transaction fund—in which the moneys required would be secured through judicious sales of surplus items.

Beyond that, I suppose one would have to go to the Congress in some form or another for appropriations. Now, again, how often that would occur and in what amounts I am not qualified to say.

Perhaps the use of certain offbudget provisions could be employed to make the management and purchasing of stockpile items easier, but for a bottom-line answer, if it becomes necessary to use the public funds to set up the kind of reserve system that we have to have, I can think of no better insurance policy when you consider the vulnerabilities about which I spoke.

Senator HUMPHREY. You know what it is like to try to sell insurance?

Mr. MCMICHAEL. It is very difficult.

Senator HUMPHREY. One last question in the area of geopolitics: As you know, Security Adviser Clark made a speech at the Institute with which you are associated, one of the many, enunciating what appears to be a new global strategy. There was no mention of strategic materials, although that certainly is a key element in such a global strategy.

Are you aware of any emphasis on that under this new global strategy which is now being formulated?

Mr. MCMICHAEL. Yes, I think there is. I have had a number of discussions within the National Security Council and have had some discussions with Mr. Clark. This was before he moved to his present post.

The National Security Council does indeed have this task force report which gets into this quite thoroughly, actually. There are about 16 recommendations in the task force report that have to do with defense and foreign policy, for example. I know that they have been referred to.

I agree that there has not been a formal and prescribed doctrine in terms of foreign and defense policies relating specifically to strategic minerals, but if you look at the administration's great concern about Central America, also the South Atlantic—and this is very bothersome to have a destabilized situation down there—when you consider the fact that that is the key chokepoint of all the shipping of natural resources that go to Europe, the United States, to Canada—it becomes a very potentially serious problem.

If you look at the administration's concerns about southern Africa, below the Equator, and their obvious concerns about the Middle East, Afghanistan, I would say that the administration, the State Department, the Defense Department are following very closely the areas of vulnerabilities to which I have just referred.

Senator HUMPHREY. Very well. Thank you very much, Mr. McMichael, for your time and expertise.

Why don't we ask our industrial witnesses to come forward at this time as a panel. Each will be asked to testify separately, but I think it will be useful to be able to question them in a group.

Mr. Richard C. Mulready, vice president of technology, for Pratt & Whitney; Charles Melbye, president, Anschutz Mining Corp.; Mr. Jacques Lennon, president, Continental Resource, Inc.; and Mr. E. F. Andrews, vice president, Allegheny International, Inc.

Since we don't have name placards, will you introduce yourselves, beginning from your right to your left?

Mr. ANDREWS. I am E. F. Andrews, Allegheny.

Mr. MELBYE. Charles Melbye, Anschutz Mining.

Mr. MULREADY. I am Dick Mulready, Pratt & Whitney.

Mr. LENNON. I am Jacques Lennon, Continental Resources.

Senator HUMPHREY. Thank you.

Why don't we begin in the same fashion with each of your statements.

STATEMENT OF RICHARD MULREADY, VICE PRESIDENT, TECHNOLOGY, FOR PRATT & WHITNEY GROUP, UNITED TECHNOLOGIES CORP.

Mr. MULREADY. Mr. Chairman and members of the committee, I am Dick Mulready, vice president, technology, for Pratt & Whitney group, the largest unit of United Technologies. I am pleased to be here today to speak in support of the Strategic Stockpile Reform Act, S. 1982, which has been introduced by Senator Harrison Schmitt.

Pratt & Whitney manufactures jet engines for both military and commercial applications. As a user of large quantities of strategic and critical materials, we are concerned about Government policies and legislative initiatives which affect raw materials availability, stockpile policy and other related matters.

The national defense stockpile contains 61 families of strategic and critical materials. Some of these items, such as lead, silver and aluminum, are quite familiar. More exotic materials, like beryllium, columbium and vanadium, possess unique qualities and applications and are much less familiar. The Strategic and Critical Materials Stockpiling Act defines stockpile materials as those which are needed to supply the military, industrial and civilian needs of the United States during a national emergency and are not produced in sufficient quantities within the United States to meet these needs.

The United States is generally considered a resource-rich country, and in many respects it is. According to the Bureau of Mines, however, the United States has virtually no primary production of the following key defense materials—chromium, cobalt, columbium, manganese, platinum group metals, tantalum and titanium rutile—all of which are required in aerospace products.

With no domestic production, the U.S. import dependency equals 100 percent. Secondary sources such as recycling, scrap reclamation and industry stocks, can supply small amounts to reduce foreign dependency. For example, in 1979 secondary sources provided 10 percent of our cobalt and chromium. The United States had no primary or secondary production of columbium or titanium rutile, so the country had to rely on imports for 100 percent of these materials.

The import dependency problem is heightened by the geographic location of U.S. supplies and the concentration of these resources in the hands of a few countries. For example, more than 60 percent of

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the U.S. cobalt comes from two countries, Zaire and Zambia. Australia alone provides 97 percent of our titanium rutile. While Australia is considered a relatively secure source, Zaire and Zambia are not. Zaire is an economically and politically troubled country and it has experienced two civil wars in the past decade. Zambia's political and economic woes are similar to Zaire's and the potential for supply interruption from both these countries is high.

Because the U.S. foreign supply sources are unpredictable and the risk of a foreign supply interruption is significant, our Government maintains inventories of these strategic and critical materials to be used in the event a national emergency arises.

The U.S. Government recognized the risk of foreign supply interruption more than 40 years ago when it authorized the Treasury Department to purchase rubber, tin and quartz crystals as part of the pre-World War II mobilization effort. Over the last four decades the national defense stockpile, as it is known today, has seen many changes and has been plagued by serious problems which have hampered its ability to operate as an efficient and effective safety net. These problems concern the quantity and quality of materials, the organization of stockpile responsibilities and outside pressures which have influenced stockpile management.

The difference between stockpile goals and inventories is cause for considerable concern. Inventories of 37 materials are deficient, while 23 items are held in amounts which exceed the 1980 congressionally mandated goals. Expressed in percentages, this means that 60 percent of the materials fall short of their goals, while 39 percent exceed their goals. Selling off excesses and purchasing materials which are deficient are steps necessary to achieve a balanced stockpile.

Before 1962, stockpile goals and inventory figures were not publicly available. During President Kennedy's administration a review of the stockpile was initiated and the findings of this audit formed the basis for large stockpile disposals.

During President Kennedy's term, aerospace materials such as cobalt, chormium, columbium, manganese, platinum, and tantalum had inventories far exceeding their goals. Of the 61 types of materials held in the stockpile today, 54 met or exceeded the goals two decades ago.

Since that time, due to stockpile sales and changes in goal levels, the situatiion today is dramatically different. Platinum, tantalum, and titanium rutile stocks fill less than half of their goals. Of the six materials just mentioned, only manganese comes close to its 1982 goal with an inventory which is only 6 percent short of the requirement. The cobalt stocks are about half of today's goals but less than 6 percent is of a quality known to be acceptable for use in manufacturing modern jet engines.

Serious doubts have been raised recently about the quality of stockpile materials. Quality assurance is critical, so that in the event of a national emergency materials are available immediately without time-consuming vertification of quality and grade. In some cases no records have been maintained to document the actual quality of the materials held.

Both careful storage and periodic rotation of inventories are essential to assure that the quality of stockpile materials is maintained.

Stockpile storage and handling procedures have created problem with tin, titanium and possibly the platinum group metals. Titanium producers believe that 25 percent to 40 percent of the titanium sponge in the stockpile may have deteriorated. Tin stocks have also shown signs of poor quality due to water entrapment and corrosion.

Although numerous materials have been sold from the stockpile, in most cases they have not been repurchased to achieve a true rotation of stocks. Principally because of inadequate funding over the years, no major stockpile rotation purchases have taken place since the original materials were bought in the 1950's and early 1960's. Thus, the current stockpile is based on the technical specifications of 20 years ago.

While inventories for some materials have remained dormant, jet engine technology has made dramatic advances. The technical standards of today's sophisticated defense items are much more rigid and exacting than those of the 1950's. For example, more than 5 parts per million of selenium in cobalt superalloys can cause a significant reduction in strength in rotating parts in jet engines. When the U.S. Government purchased cobalt, this threshold had not been established nor was the technology available to test for such levels.

While the stockpile contains 45 million pounds of cobalt, compared to a goal of 85 million pounds, only 5 million pounds purchased in 1981 meet today's rigorous standards for the rotating grade jet engine applications. The other 40 million pounds could be used in less exacting applications but would require upgrading or reprocessing before it could be used in more sophisticated end products. There is very limited capacity within the United States to upgrade the old cobalt stockpile and in an emergency it would be difficult to ship the material overseas for upgrading.

The use of the national defense stockpile for political, economic and budgetary purposes has also been sharply criticized. Presidents Johnson and Nixon authorized large stockpile disposals to balance the budget and control inflation. Neither President had any qualms about publicly announcing that these sales were necessary, not for national defense requirements but purely for budgetary and economic reasons.

President Nixon set a record for stockpile sales by authorizing the disposal of $2 billion worth of materials in 1974. We believe that stockpile management needs to be isolated as much as possible from political pressures.

Only seven materials were deficient in 1962. Today, 37 are short of their mandated goals. Based on economic, political, and budgetary considerations, the entire aluminum, nickel and copper inventories were sold, as was most of the zinc and about half of the lead. In the past two decades all or portions of inventories of 26 materials have been sold. Requirements for these same materials were reestablished later and we now have purchase requirements to meet current goals.

Cobalt provides an excellent example of how changing U.S. policies have affected stockpile activities and management. By simply altering the goal levels for cobalt, surpluses and deficits have been created overnight. During the 1950's the U.S. Government bought 83 million pounds of cobalt as partial satisfaction of a goal of 129 million pounds. In 1959 the goal dropped to 19 million pounds and suddenly the stockpile had a 78 million pound surplus; 54 million pounds were then sold

between 1967 and 1977, supplying an average of 30 percent of the U.S. annual requirements.

In yet another dramatic reversal, the goal went from an all time low of 12 million pounds in 1973 to its present goal of 85 million pounds in 1976, once again creating a deficit. This inconsistent stockpile policy was the major reason for the cobalt shortage in 1978–79. The Zairean supply was put on allocation but in fact there was no major damage to the mines and the production goals for 1978 were slightly exceeded.

These changes in stockpile goals and inventories have been disruptive for both producers and users. Stockpile sales were curtailed in 1977 with no warning and with no time to make the transition to new supply sources. This change in stockpile policy came just before the civil war in Zaire. The cobalt shortages of 1978 and 1979 were, for the most part self-inflicted and resulted in more than an eightfold increase in price, from $6 a pound to $50 a pound, on the spot market.

Responsibility for stockpile policy, management and day-to-day operations is diffused and lacks the coordination necessary to insure that the stockpile performs its role in an effective and efficient fashion. Numerous Government agencies and Congress have bits and pieces of stockpile responsibility, with no real central focus. The Federal Emergency Management Agency [FEMA] and the General Services Administration [GSA] share stockpile policy and operation authority, while the Departments of Defense, Interior, Commerce, and State have additional responsibilities. Because stockpile functions are so diffused, coordination is difficult and effective, long-term stockpile management is impossible.

A consolidation of stockpile responsibility and authority is essential. This central authority must reside in an independent body, such as has been proposed by Senator Harrison Schmitt in the Strategic Stockpile Reform Act, S. 1982. Such an organizational structure would enable the stockpile to be managed in an environment isolated from political pressures and with long-term national objectives in mind.

Quality, grade, form and quantity of stockpile inventories are extremely important factors in the stockpile question but they are overshadowed by the critical importance of an effective stockpile organizational structure, for if the stockpile is not managed correctly, other improvements will have little lasting effect.

Pratt & Whitney supports the Strategic Stockpile Reform Act, S. 1982, and hopes that the members of this subcommittee and the Senate Armed Services Committee will act promptly to approve this legislation.

We seldom have an opportunity to really face up to the real problem of the stockpile. I think this is one of those occasions.

Mr. Chairman, that completes my prepared statement. I will be happy to answer any questions that you may have.

Senator HUMPHREY. Thank you very much for your excellent statement.

I think we will ask for statements first and then we will go into questioning.

The next on our list is Charles Melbye. Mr. Melbye?

STATEMENT OF CHARLES F. MELBYE, PRESIDENT, ANSCHUTZ MINING CORP., DENVER, COLO.

Mr. MELBYE. Good morning, Mr. Chairman and members of the committee. My name is Charles Melbye. I am president of Anschutz Mining Corp. of Denver, Colo. Anschutz Mining Corp. is a wholly-owned subsidiary of the Anschutz Corp. The Anschutz Corp. is privately held and principally engaged in the exploration and production of oil and gas and strategic minerals such as cobalt, tungsten, and antimony. It is a pleasure to appear before your committee and have the opportunity to testify on this important issue.

Anschutz Mining Corp. has under development the Madison Mine cobalt project in Fredericktown, Mo. Our objective is to become the first domestic producer of cobalt metal in the United States in over 20 years. The project is targeted to produce 2 million pounds per year of superalloy grade cobalt metal. The Madison project would reduce U.S. superalloy dependence on foreign imports of cobalt by almost 30 percent.

After having committed approximately $30 million on land acquisition, exploitation drilling, verification of reserves, mine rehabilitation and development, metallurgical process piloting and refinery design, Anschutz Mining was forced to put the Madison Mine on standby where it is today. This action was dictated by the current erosion of the cobalt market price brought on by the worldwide recession, fear of future predatory pricing by Zaire and/or Zambia, where cobalt is a byproduct, and the lack of any timely or definitive action by the Government to support domestic cobalt production.

In the course of the last 2 years we have visited Washington on a regular basis, attempting to enlist Government support for the development of this vital domestic resource. We have received nearly unanimous expressions of bipartisan support from Members of Congress and various departments and agencies of the executive branch.

Unfortunately, it has become apparent that there exists today no single body responsible for national mineral policy, control of the GSA stockpile and utilization of the Defense Production Act to reduce our Nation's tragic dependence on foreign sources for strategic and critical materials. Anschutz Mining is keenly aware of the market disruptions and the problems with friendly nations which develop when the stockpile sales are formulated by political expediency.

As an example, I would like to cite that our company right now is producing antimony from two mines in Bolivia. Bolivia is the second largest producer of antimony. Right now GSA is selling antimony from the stockpile at a time when the antimony price is at its lowest level in many years, which disrupts the marketplace. Also, Bolivia is extremely unhappy because many of their mines are being forced to close down. Bolivia has always been a staunch friend of the United States, and I think in Latin America these days we need some more friends.

Lastly, the revenues to the Government on this small surplus antimony sales will be very small compared to the trouble it is causing. So, I think this is one specific example.

We recommend that a body with total authority over the stockpile program be created. We support the concept as proposed in S. 1982. We also would like to point out, however, that the serious questions of national security arising from our dependence on foreign sources for strategic and critical materials are complex and mineral specific.

For example, we believe that domestic production of cobalt is an effective alternative to a large stockpile of foreign-supplied cobalt. Domestic production will also contribute to the economy in the form of increased employment in depressed areas and a more healthy economy in mining communities.

A stockpile bill will not provide for any domestic cobalt production. Utilization of the Defense Production Act will provide for domestic production in a cost-effective way, as it has many times in the past. Used in concert with sound administration of the stockpile, it would be a powerful tool in protecting the United States against disruptions of supply during periods of national emergency.

In regard to the cost effectiveness, several studies have been completed which indicate that the domestic production of cobalt is cost effective and I understand—I have not seen the report—that FEMA is now issuing a study very soon which will substantiate the cost effectiveness of the domestic production of cobalt.

We support the concept of title II of S. 1982 amending the Defense Production Act to provide the Strategic Stockpile Commission authority equivalent to other Government agencies to utilize the provisions specified in sections 301, 302, and 303 contained in the act.

We also support additional amendments, not contained in S. 1982, which we feel would enhance the effectiveness and reduce the budget contraints of the Defense Production Act.

Mr. MELBYE. The national problem of strategic and critical minerals will not be solved quickly. We believe that specific actions can and should be undertaken.

We appreciate your committee's invitation to testify on this critical national issue.

I would be pleased to answer any questions or to provide additional information.

Senator HUMPHREY. Thank you, Mr. Melbye.

Mr. Lennon?

STATEMENT OF JACQUES LENNON, PRESIDENT, CONTINENTAL RESOURCES, INC.

Mr. LENNON. I am Jacques Lennon, president of Continental Resources, Inc. I appreciate the opportunity to appear before you today to testify on S. 1982, a bill that would revise the manner in which the U.S. National Defense Stockpile is managed.

Continental Resources, Inc., is a New York corporation that trade in metals and minerals. As traders, we have had substantial experience in the past in dealing with the stockpile and in barters. We have recently had unfortunate negotiations with the General Services Administration concerning a barter contract for the provision to the stockpile of vanadium pentoxide, in which the stockpile is deficient.

I am not in a position to assess the merits of some elements of S. 1982, for example, the virtue of establishing a national commission

as opposed to other organizational structures; however, our experiences with transactions involving the stockpile and barters does shed some light on stockpile management and operation and would, I believe, be useful to you in your consideration whether S. 1982 should be enacted.

In brief, our recent experience in connection with the vanadium pentoxide solicitation demonstrates unequivocally to us that something is significantly wrong with the way GSA is conducting business. The unacceptable behavior of GSA inhibits the stockpile from obtaining strategic materials in which it is deficient and is expensive to the United States for a variety of reasons.

In the early 1950's we were one of a very small group who advocated and helped initiate the Commodity Credit Corporation's barter program which exchanged surplus agricultural commodities for strategic materials. The theory at the time was that most agricultural commodities were perishable and most strategic materials were not. This program operated very successfully for about 10 years. It was discontinued when the most important agricultural commodities such as corn, wheat, and cotton, which had been in tremendous surplus, came back into balance.

This situation has now again apparently changed, at least in certain cases of certain agricultural commodities, and a new agricultural-type barter program might again make sense.

This is not something that I am in a position to judge; it would certainly make sense, however, to create a pool of excess materials in the stockpile itself which is or can be made available for disposal and to make that pool of commodities available for barter transactions leading to the acquisition of strategic materials in which the stockpile continues to be deficient. It will be necessary to build safeguards so as to avoid undue disruption of markets, but this should not be an insurmountable problem.

Let me now turn to the recent experience we have had in connection with a GSA solicitation to exchange commodities presently in surplus in the stockpile for vanadium pentoxide:

On August 4, 1981, GSA solicited offers to exchange surplus tin or tungsten for 1.8 million pounds of vanadium pentoxide for the stockpile—RFP–GS–DOOxx–81c–0002. According to the Stockpile Report to the Congress, October 1980 to March 1981, vanadium pentoxide is one of the commodities in which the Government is deficient and it is considered as urgently needed material.

On September 25, 1981, Continental Resources, Inc., submitted an offer to supply the vanadium and thereafter entered into negotiations with GSA. During the negotiations, GSA requested Continental to reduce the quantity of vanadium it was offering to 1.35 million pounds so that GSA could make a split award of the contract. Apparently another supplier of U.S.-source vanadium which had only a portion of the desired amount would supply the rest of the split award. Continental agreed to reduce the amount and to the split award.

I was advised by letter dated November 12, 1981, that Continental had been "selected to provide 1.8 million pounds" of vanadium. We were not told why GSA chose not to make a split award.

GSA publicly announced the award shortly thereafter. According to America Metal Market, on November 16, 1981, GSA "acquired" 1.8 million pounds of vanadium pentoxide, and a GSA spokesman stated that GSA had "awarded its contract" to Continental. GSA Commissioner Roy Markon is quoted in the article as saying that the exchange agreed to with Continental was the first made by GSA in a number of years.

A meeting was set for December 8, 1981, in Washington to commit the agreement to writing; however, on December 7, 1981, GSA advised Continental that it would terminate the award.

GSA has at different times advanced a number of different reasons for its decision: They are (a) "internal, personnel and technical reasons"; (b) changes in policy regarding international tin disposal; (c) changes in the vanadium pentoxide market; and (d) the Buy American Act. None of these explanations appears logical.

When we asked then GSA Commissioner William Campbell what was meant by "internal, personnel and technical" reasons, he indicated that he did not know. Changes in international tin disposal policy, even if it affected the price of tin, was not relevant because Continental was to receive a specific dollar amount of tin, not a specific quantity.

Similarly, since Continental was prepared to reduce the price of the vanadium it had agreed to supply if the vanadium market had changed, changes in the vanadium market could not have been a tenable reason GSA terminated the award.

Finally, the Buy American Act issue was solely related to the split award which GSA chose not to pursue. I have attached to my testimony for the committee's information press reports criticizing GSA's handling of the procurement.

On January 13, 1982, after the termination, I met with GSA Administrator Carmen, who had not previously been involved in the issue. Subsequent to the meeting, GSA decided to reopen negotiations with Continental. During these negotiations, GSA indicated it still needed the vanadium and wanted to proceed with the contract but that it now had problems with the price of the vanadium and the terms on which Continental was able to withdraw payment materials prior to delivering vanadium.

As a result of these negotiations, Continental made a firm offer to reduce its vanadium price and to pay interest for any early withdrawal of payment materials at the prime rate plus 1 percent.

GSA advised Continental on February 19, 1982, that it accepted these offers and that GSA considered final agreement to have been reached on all issues. However, GSA informed me on March 3, 1982, that it would not proceed with the agreement. We offered to negotiate further changes in the contract to meet conceivable GSA concerns about the timing of tin deliveries pursuant to the exchange portion of the contract. GSA refused even to discuss these suggestions.

In a letter dated March 10, 1982, from Commissioner Markon, GSA gave as its reason for the second termination that the "disposal of tin under the exchange portion of (the) contract . . . is not in the Government's best interests and may be considered as an act of undue disruption of the present and foreseeable tin market." This reason is suspect, since (a) the amount of tin involved is less than 1 percent of U.S.

consumption; (b) GSA is arguing in another lawsuit that more tin than this does not disrupt the market; and, (c) GSA continues to sell tin on a daily basis.

Continental has filed a claim with the contracting officer for damages for GSA's breach of contract.

I would like to make some personal observations about the vanadium pentoxide solicitation.

First, at a time of significant concern over projected budget deficits, GSA should have and could have negotiated a barter of vanadium for surplus stockpile markets; however, because of the arcane and illogical fashion in which GSA is operating, the stockpile remains in short supply of vanadium pentoxide and GSA wants appropriations to obtain the vanadium.

Congress has properly urged GSA to engage in barters to avoid the use of appropriated funds to fill the stockpile. GSA has not used barters and is not satisfying its responsibilities of acquiring needed stockpile materials.

Second, we understand that a split award was not made in this case because of unjustified bias against the other company involved. That company lodged a complaint. It may not be remarkable that a Government official acts on the basis of bias. What is disturbing is that GSA has not taken measures to resolve the bias problem in a fashion that satisfied governmental interests and justice.

Third, GSA reached agreement twice on a contract with us and canceled the contract twice. It provided spurious explanations for these actions. Bias was involved. This is not a businesslike or legitimate way for a Government agency to act.

I would be pleased to answer any questions the subcommittee may have. Thank you.

Senator HUMPHREY. Thank you, Mr. Lennon.

Mr. Andrews?

STATEMENT OF E. F. ANDREWS, VICE PRESIDENT, MATERIALS AND SERVICES, ALLEGHENY INTERNATIONAL

Mr. ANDREWS. My name is E. F. Andrews. I am vice president of Materials and Services for Allegheny International. I have spent the past 35 years of my life in the materials business. I have a statement, if you will enter it for the record.

I have been deeply involved with the stockpile over most of its life, from 1946 certainly through the present, and I have been asked many times what I thought of the management of the stockpile. I probably have been one of its most vocal critics. I also have been one of the few people who have been very complimentary on certain things.

Those of us back in the 1960's who remember the uranium shutdown that cut off vanadium, it was the stockpile in conjunction and in cooperation with the consumers and producers that monitored an economic disposal from the stockpile for about 2 years that totally prevented a market hiatus period that would have occurred.

I also remember when they bought at the wrong time, sold at the wrong time, have been used to break price increases, have been used to break labor strikes and, of course, have been used to balance the

budget. For most of it, you can't criticize the specific managers of the stockpile because they were under orders.

You then get down to saying, well, really, who is the manager of the stockpile?

First of all, let me say that you cannot examine the stockpile in a vacuum; it is merely a piece of what is a broader problem of a national materials policy. To start with as Mr. McMichael said, we need somebody in charge. There is nobody in charge of the act. It is galloping off in different directions. That is why some of us have been calling for a national minerals policy for 15 years. We need to use all of the laws which are part and parcel of a national materials policy.

Stockpiling is a very essential part of this, but it is really the court of last resort in national materials policy. When you have tried all other options and found them lacking, such as conservation, research, recycling, export controls, substitution, and when there is no better alternative, you stockpile. It is the court of last resort.

The stockpile has really one purpose, only one: Time, time to see us through a short-term interruption or time to seek more long-term alternatives. That is all it is for.

That having been said, as has been said by my friend, Dan McMichael, a total reassessment of the stockpile needs to be done. This present management of GSA is in the highly suspect. There are certain items we have too much, certain items we don't have enough of. We have heard stories about cobalt, laid down 25 years ago. This is not to criticize the persons who laid down that cobalt it was the finest cobalt you could buy then, but technology has passed it by. Therefore, the criticism is that it has not been kept up with the advance of technology.

We somehow come to think that if we put it down 25 years ago it would be just as good today. If you buy it today as the absolute best it will be out of specification 25 years from now. That has been a basic problem.

We also need to reexamine the mix. What do I mean by that? The biggest form in the stockpile in chrome and manganese is ore, yet due to a series of misguided actions, in my opinion, over the past we have virtually destroyed this country's capability of smelting chrome ore into ferrochrome. We stockpile chrome ore without the ability to turn it into ferrochrome.

Another problem that is required is that we must institute a rotation policy so that we can maintain the quality and do this without dislocating markets. How do we rotate in and out of a volatile, dynamic market and not dislocate and disrupt that market?

Now, the management, which seems to be what everybody is getting at. One of the most difficult problems is providing management of the stockpile. How can the stockpile management be designed to operate so that it will not be misused for financial advantage to special interest groups? How can it be sufficiently insulated from the political process so that it can act. That has been a problem, its inability to act, yet when you come to that bottom line, being a public institution, it has to end up responsive to a Congress.

How do we bring that together? Well, we can continue doing what we are doing, but I think the record shows that it has serious short-

comings. Whoever heard of organizing a company where one organization says how much money you get, an entirely separate organization says what you are going to do, an entirely third organization is giving you the data to do it on; finally, we put it in the hands of the Government's real estate agent.

Then we say the chairman of the board of this company is a committee of 535 people. In no way is that going to work. Anybody knows that.

Over the years I have given a great deal of thought as to how this thing should be run. In fact, in 1972 when I was chairman of the Critical Materials Committee I wrote a paper for the ASI on how I thought the stockpile should be managed.

One is a TVA quasigovernmental company. Another is a Comsat; another is forming an economic stockpile association; a fourth is to examine the tax incentive programs for private stockpiling such as Sweden and Switzerland are now trying, and a study is underway by the Institute of International Economic Studies in Washington to look at this.

As I have over the years looked at these alterative managements I have come to the conclusion that the disadvantages mostly outweigh the advantages. I finally came down that we should establish, as I wrote in 1972, a Federal Reserve Board for Materials. The Board would consist of members appointed by the President, confirmed by the Senate, with extended years of service to make it as apolitical as possible. This bill calls my board a commission, so we will call it a commission.

The key to the the success of the Commission will be the expertise that will exist within Commission members themselves. We must seek and find men who have experience in a worldwide, dynamic, moving metal market from the producing, trading, consuming industries and people who have the experience and know what they are doing in those marketplaces.

Once manned, the Commission should be given the maximum freedom to act in a normal professional manner. The law says that the stockpile should not be disruptive, yet its very existence is disruptive; just because it is there it is a disruption. Therefore, it is going to take a great deal of skill in order to move in and out of the markets routinely, short term, minimal quantity, so that you become no more a factor in that marketplace than any private force operating in that marketplace.

The bill contains a portion of S. 1338, which is Senator McClure's bill setting up classes for the selection of items to go into the stockpile and a formula for establishing quantities. Frankly, if we get the people on the Commission that I would envision, then this approach is simplistic, and if you are going to leave it in, it should be made quite clear that it is a broad guideline and no more.

We should not tie the Commission's hands with a simplistic formula. The materials market of the world is far more complicated than merely considering the percent of our import dependency. Now, that is a vital consideration, but the geographic location and political stability of the supplying countries are very important also.

It is one thing, even though you be 100-percent import dependent, to have your supplier located in Canada or in the Soviet Union or

southern Africa. If you are 100-percent dependent, and there are 50 suppliers well distributed around the world, that is one thing; but if there are only 1 or 2 in a highly destabilized part of the world, that is something else. The economic leverage, military leverage, that we might have on the supplying countries, all have to be considered, but we should leave this in the hands of professional managers who know, understand, and are experienced in the nuances and the forces that are in play in a dynamic world market. Also, the formula for establishing the quantity set forth in the bill, which says it would take 3 of the best 5-year averages or something, sounds very good. But if you have just come off a 3-year recession and are about to go into a surge for a war footing, that historical data is fairly meaningless. Also abrupt changes in power and political alliances all bear upon the marketplace and need to be considered.

I support the provision of the bill for title III of the Defense Production Act. I realize this is highly controversial. It looks like perhaps it is a handout to business. Nevertheless, experience has taught us in the past, certainly during the 1950's, that it was a useful tool. I recommend that it be used very, very judiciously, very, very carefully; however, I also recommend that we do not take it out but leave it in the arsenal of weapons available to this Commission.

Lastly, I commend the writers of this revised bill for section 9–A–3. I believe the present policy of using the strategic stockpile as a de facto economic stockpile subject only to the vaguest guidelines and control is unwise and should be discouraged, but we must admit that there have been, and increasingly will be in the future, times of severe unexpected and abrupt interruptions of vital supply caused by embargoes, cartels, economic blackmail from unfriendly nations, and conflicts, terrorism, local wars, and what have you. All of these can cause severe, abrupt interruptions and unacceptable economic and social impact upon our country, yet it would not meet the criteria for use from a "defense" stockpile.

In the National Materials Policy Act of 1980 it calls for an examination or assessment of economic stockpiles. The Commission on Materials and Shortage in 1976 recommended an examination for economic stockpiling. The OTA report in 1977 recommended we examine the parameters for use of this kind. Congress provided in legislation the parameters under which items could be taken out of the stockpile for nonnational security reasons. I consider stockpile disposal for price stabilization purposes unwise and inadvisable. Disposal for disruptive strikes is unacceptable; however, certain other parameters for disposal should be made and made quite clear so that everybody knows when it is about to happen.

I would never come out of the stockpile for export as long as domestic need was unsatisfied. Disposal should never be made for economic purposes at a higher rate than the difference between domestic consumption and domestic production.

Sales should never be made from the stockpile when material is available worldwide in a normal market.

In my judgment, this is an issue whose time has come and I welcome the debate that I hope this legislation will spawn.

Stockpiling is not and cannot be a long-term solution to import dependency on strategic materials. It can only serve as a buffer in case

of crisis, tide us over in case of war, give us options and maneuvering room in case of civilian disruption at the source of overseas supply. In short, it is a limited hedge against the risk in a highly disturbed world.

Thank you.

[Prepared statement of Mr. Andrews follows:]

PREPARED STATEMENT OF MR. E. F. ANDREWS, VICE PRESIDENT, MATERIALS AND SERVICES, ALLEGHENY INTERNATIONAL, INC.

My name is E. F. Andrews. I am Vice President of Materials and Services for Allegheny International. I have spent the past 35 years of my life involved in and around the acquisition of critical materials for my country and my company. I welcome this opportunity to speak to the revised version of S–1982.

The Stockpile Act was first enacted in 1939, was greatly overhauled in 1946 after the experiences of World War II, and again in 1979. During much of that time, I have been critical of the way the stockpile was managed; but I have been complimentary also at times. Anyone who is familiar with the facts of the middle sixties, when we were waiting on new facilities to come on stream in vanadium and molybdenum, knows that the careful cooperation among government, the producers, and the consumers prevented a disastrous condition in the marketplaces; and the stockpile managers were to be congratulated. But we also remember when the stockpile was buying at the wrong time, selling at the wrong time, breaking price increases, breaking labor strikes, and balancing the budget—all of which was disruptive and should not have been permittted to happen. I am hopeful that S–1982, as revised, can go a long way in correcting some of these past mistakes. For this reason, I support this bill and recommend its adoption in something near the form in which it now stands.

For the record, let me say that we cannot examine the stockpile in a vacuum. It is a part, a very essential part, but only a part, of a much broader national materials policy. In fact, it is virtually the court of last resort when the other options open to us in a national materials policy are found to be ineffective or unavailable to us; options such as conservation, export control, recycling, research and development, substitution, etc. When all else fails, then we stockpile. The stockpile has really one purpose. That is providing the time required for us to ride out the short-term interruption or implement such long-term and more permanent solutions as we are able to devise.

Having said that, where do we start? We need a total reassessment of our stockpile. This reassessment should be made in light of such considerations as quantity, quality, mix. Are we too short with this and too long with that? What have time and weather done with the quality of the items in the stockpile, such as cobalt laid down 25 years ago? Should we not change, for example, the ratio of ferrochrome to chrome ore now that a series of misguided actions in the past have virtually destroyed our former capacity to smelt chrome ore into ferrochrome?

Questions like these and remedial measures based on the answers to them can help bring about a viable stockpile appropriate to current realities.

Among other things, a new program will be required for buying and selling relatively small quantities each year so as to maintain the quality of the stockpile material on the one hand and to make sure that markets are not dislocated on the other. This will take very close cooperation between government and business and will require that a certain trust be developed that does not now exist.

One of the most difficult problems is providing for the management of the stockpile within the parameters set forth by Congress. How can a stockpile management be designed and operated so that it will not be misused for financial advantage of special interest groups? How can it be sufficiently insulated from the political process to prevent its misuse, as in the past, yet insure that it will achieve the public benefit for which it is established? It must be sufficiently insulated from the political process that it can act in the public interest yet remain responsive to Congressional scrutiny.

Over the years, I have considered several ways to manage the stockpile. One is a TVA or quasi government company. Another would be a COMSAT or a joint government-private company. The third is a national economic stockpile association. Fourth, we could examine the possibility of tax incentive programs whereby the stockpile would be maintained by private industry, such as is now being tried in Sweden and Switzerland. All of these, however, have advantages and disadvantages. In my judgment, the disadvantages outweigh the advantages.

I finally came to the conclusion that we should establish a Federal Reserve Board for Materials. The board would consist of members appointed by the President confirmed by Congress, with extended years of service to make it apolitical insofar as possible. This bill provides virtually the form of management that I envisioned in 1973.

The key to the success of this commission will be the expertise that will exist within the commission members themselves. We must seek and find men women with experience in world-wide metals and minerals marketing and in the producing, trading and consuming industries. These are very special international markets and require years of expertise to understand and know what makes them function.

Once manned, the commission should be given the maximum freedom to act in a normal market manner. The law says that the stockpile should not be disruptive yet we have to admit that its very existence is a disruption. It will take a great deal of skill on the part of the members of the commission to move in and out of the market in such a manner that the normal daily functioning of the market is no more disrupted than it would be by the impact on it of any private force. We should not tie their hands by setting quantities or timing but let their expertise make it work.

S–1982 now contains the major portions of S–1338, Senator McClure's bill setting up classes for the selection of items to go into the stockpile and a formula for establishing the quantities to be stockpiled. I have no quarrel with the intent of this portion of the bill, and it would be needed if we were to continue past practices. In my judgment, it is a bit simplistic and not needed if the commission has the expertise I envision. They should clearly be broad guidelines, no more. The materials market world-wide is far more complicated than would be implied in this portion of the act. The mere percent of import dependency, while a very vital and number one consideration, has to be examined in the context of other considerations, such as the geographic location and the political stability of the supplying countries. It is one thing to have the supplier in Canada and another thing to have the supplier in the Soviet Union or southern Africa. Also, one needs to consider the number of suppliers. Even though we may be one hundred percent import dependent, it makes a big difference if there are 50 supplying countries spread around the world or concentrated in one or two countries with high political instability. The substitutability and essentiality to the general economy has to be taken into consideration. The economic leverage and political or military leverage that we may have on the supplying countries must be considered. Therefore, to lock in the commission with strict rules would be to deny them the full usage of their understanding of the various nuances and forces in the world market.

Also, the formula for estimating quantity (three years based on the five-year average) is a good, broad guideline. But, if we were to come through a three-year recessionary period of low consumption and move into a surge to a war footing, the needed consumption rates would have little or no bearing on what was done in the past five years. The world is constantly in change. Who would have thought three years before the over-throw of the Shah that Iran would not be our strongest ally in the middle east. These abrupt changes in power, in political alliances, all bear upon this world marketplace; and maximum flexibility must be given to the commission to act in the national best interest.

I certainly support the bill's provision for the use of Title III of the Defense Production Act. I realize this is highly controversial and, to some, looks like a hand out to business. Nevertheless, experience has taught us that most of the time, when it was used in the fifties, it was a useful tool. I do not recommend its use loosely; however, I do think the commission should be provided with the weapon in its arsenal, available to it when there is no better alternative.

Lastly, I commend the writers of this bill for the inclusion of Section 9–A–3. I believe the present policy of using the strategic stockpile as a defacto economic stockpile subject only to the vaguest guidance and control is unwise and should be discouraged.

Yet we must admit that there have been and increasingly will be in the future times of severe, unexpected, and abrupt interruptions of vital supplies caused by embargoes, cartels, industrial and economic blackmail from unfriendly nations, armed conflict within other nations, and terrorism in foreign countries. Any and all of these can cause severe, abrupt interruptions and unacceptable economic and social impact upon this country and yet not be "a national emergency" or "a war" and not meet the criteria for use of the "defense" stockpile.

In the National Materials Policy Act of 1980, it calls for an assessment of the economic use of our stockpiles. This is the first piece of legislation that has spoken to the problem, and it is long overdue. We must get over being afraid of this issue.

Congress should provide in legislation the parameters under which items could be taken out of the stockpile for non-national security reasons. I consider stockpile disposal for domestic price stabilization purposes to be unwise and an inadvisable intrusion into the free market. Disposal for disruptive domestic strikes would be an unacceptable reason. However, certain other parameters for disposal should be made quite clear so that all concerned would know when disposal time was near. Disposal from the stockpile should never be made for export as long as domestic need was unsatisfied. Disposal should never be made for economic purposes at a higher rate than the difference between the domestic consumption and domestic production. Sales should never be made from the stockpile when material is available world-wide through normal channels at world-wide acceptable prices.

In my judgment, this is an issue whose time has come, and I welcome the debate that I hope this legislation will spawn.

Stockpiling is not and cannot be a long-term solution to our import dependency of strategic materials. It can only serve as a buffer in case of crisis, tide us over in case of war, give us options and maneuvering room in case of civilian disruption at a source of overseas supply. In short, it is a limited hedge against risk in a highly disturbed world.

Senator HUMPHREY. Thank you, Mr. Andrews.

Let me ask a number of standard questions of each of you and then go into questions about your testimony.

Starting from your right to your left, how would you rate the sufficiency of the stockpile as it presently stands?

Mr. ANDREWS. Did you say efficiency or sufficiency?

Senator HUMPHREY. Sufficiency.

Mr. ANDREWS. Quite inadequate, of course. The record speaks to that because of its shortfall and it is inadequate because of our mismanagement of it. You know, it has too much of the wrong things and not enough of the right things.

Senator HUMPHREY. In a word, it is inadequate?

Mr. ANDREWS. Yes.

Senator HUMPHREY. Mr. Mulready?

Mr. MULREADY. I would like to speak to the cobalt.

Senator HUMPHREY. In a national security sense?

Mr. MULREADY. Cobalt is a really good example; it has been there a long while. The lady in the GSA who is responsible for quality assurance, Miss Law, told me she thought that none of the material other than that purchased recently could be used in today's jet engine alloys, so it is already a naked king. It purports to be an insurance policy for time of disaster but it really contains materials that I suspect in many cases are inadequate for today's use.

Senator HUMPHREY. You understand that in asking these questions I am looking for things that can be quoted in legislative debate.

How would you characterize the status of the strategic stockpile at present? Do you find it alarming, for instance? That is the kind of stuff I am getting at.

Mr. MULREADY. Yes; absolutely alarming, terrifying. Things can happen so quickly in today's world that we go along from day to day not worrying about the potentials for interruption, but they are right there and they are facing us. Particularly in these times when inventories of everybody's materials have been squeezed down to the absolute minimum in order for people to survive, our vulnerability

to the kind of interruptions that the stockpile should protect us from is very high.

Senator HUMPHREY. Mr. Melbye, in a national security sense, how would you rate the sufficiency of the stockpile for the benefit of my colleagues who have not been present to hear all of this testimony and won't read the record?

Mr. MELBYE. I will agree, that from the national security standpoint, it is alarming. From the standpoint of what metals we need in the stockpile and the fact we have had enough of many of these metals, and now we no longer have them, it is an up-and-down situation.

We should be able to do a much better job of not having these kinds of shortages that we have in the stockpile today.

Senator HUMPHREY. Mr. Lennon, you are not exactly in the same enterprise as these gentlemen, but are you in a position to comment from a national security standpoint on the adequacy?

Mr. LENNON. Yes, I believe I can, from an international point of view. It would seem that the words used—alarming and inadequate—are certainly appropriate in this case.

Senator HUMPHREY. You have all touched upon this perhaps, but in a word what is wrong with the management of the strategic stockpile.

Mr. ANDREWS. The way it is structured, in my judgment, you cannot run a successful business reporting to a committee of 535 people. If I had my druthers, I would pull the things together in a Federal Reserve Board of Materials, and I would pull the Bureau of Mines into that; I would pull the GSA stockpile into it, FEMA into it. I would set it off budget and set up a funding program for it and let it operate in that manner.

The way it is presently set up, the things I complain about, when you sell wrong, when you buy wrong, most of the time it wasn't that poor guy in GSA that did it.

Senator HUMPHREY. Right. You have not put it into words that I can use in debate. Why do you want to do those things? What are you trying to preclude.

Mr. ANDREWS. I am trying to get the stockpile, I think, as it should be, a court of last resort in a national emergency, and I mean by emergency both military and economic emergency, so that it is viable, up to date, has in it what we want.

I don't think we are going to do that as long as it is at the whiplash of a bureaucracy for budget needs.

Senator HUMPHREY. There has been management by a number of people who don't have the expertise to begin with; is that right? Second, there have been politics played with it—is that a correct statement?—and used for budgetary purposes?

Mr. ANDREWS. To break the prices, to break strikes. There are people there, so-called managing the stockpile, who do not have the control over the factors that bear upon it, organizationally, like from a business point of view.

Senator HUMPHREY. Mr. Mulready, in words that I can quote in legislative debate, what is wrong with the management of the strategic stockpile?

Mr. MULREADY. I think you stated it, yourself. It is an insurance policy. We have been borrowing against the cash value. There are

many checkbooks out and lots of people have been borrowing. There is no one central focus that says we must protect this country from having its resources cut off not only in a "national emergency" declared by the President, by externally caused disruptions or embargoes which can occur without a "national emergency."

Senator HUMPHREY. Mr. Melbye?

Mr. MELBYE. I would say that the main problem is that the stockpile is run based mainly on political expediency rather than on good management. We always seem to have metal sold at the wrong time when they get the least return for the Government and they cause the greatest disruption as far as marketplace and as far as our friends around the world. Everything seems to be done at the wrong time.

Senator HUMPHREY. Mr. Lennon?

Mr. LENNON. Basically based on personal experience, the expertise is missing. If I compare it with the stockpile program here, the defense stockpiling program, there are two men who control that program. They buy it when they feel the market is right for them to go into the market and buy favorably what they need.

The thing is that these people who are doing this are experts in the commodities. They know the markets. I think that is very important.

Mr. MELBYE. I think a good example came up here yesterday when Senator DeConcini came in with his bill to buy copper. Now, as you and Senator Levin properly said, he wanted to get some people working out there in the copper industry, and there is nothing wrong with that, but it is a use of the stockpile the other way around.

Now, I go around the other way. I have no problem with what Senator DeConcini is trying to do. This is his reasoning. However, as manager of a stockpile, this is a very good time to buy copper and a very good time to go to the copper industry and make yourself a deal. That is the reason he should buy copper; it is just a good time to do it.

Senator HUMPHREY. I am going to have to suspend. We have a vote underway. I will be back in about 10 minutes.

[Brief recess.]

Senator HUMPHREY. Now, in no particular order I want to ask questions that arise from your testimony.

Mr. Andrews, you referred on page 2 to the maintenance of stockpiles by private industry, such as is being tried in Sweden and Switzerland. What is that all about?

Mr. ANDREWS. They have a tax incentive program in which private industry, if they will lay down certain strategic materials, let us say, if it were my own company, chromium, we get certain tax advantages to offset the cost of the cash tied up having it sit there.

Senator HUMPHREY. That material would be solely for your own use?

Mr. ANDREWS. That is one of the disadvantages and why I walked away from it. Take the scenario that, all right, I do that and I lay down 100 million dollars' worth of chrome and I am taking some tax advantages, but my competitor is not going to bother with it, then we get into a national emergency and I have a monopoly on the chrome market in the United States. The Government says, "Wait a minute; no, you don't. Give him some." That starts to be where I kind of fall out of bed.

I did this in my own examination when I walked away from this program. Subsequently, the Swedes and the Swiss have done it and, as I said, a far more qualified group than I is studying it, an in-depth study is going on. I look forward to seeing it. I might find I am wrong and it does have merit.

Senator HUMPHREY. How long has it been underway in Sweden and Switzerland?

Mr. ANDREWS. Three or four years.

Senator HUMPHREY. How is it working?

Mr. ANDREWS. They say it has been working fine. I have not been over there to sit down and talk with them. I did my work without the benefit of having their experience.

As I understand, Tim is in touch with it.

Mr. MCMICHAEL. He is in touch and I had the Swiss visit me a year and a half ago to advise what they are trying to do. Tim Stanley is doing in-depth work. He should be finished with it fairly soon.

Mr. ANDREWS. It is an option we should examine, Mr. Chairman.

Senator HUMPHREY. It sounds interesting.

Your point—and the others have made it as well—that we must have expertise on any such Commission is undeniable and, as a matter of fact, I have suggested to the staff that they try to come up with some kind of qualifications in the bill.

We would like to have your help, the help of all interested parties, in formulating some general qualifications so that this does not become a political plum.

Mr. ANDREWS. That would be disastrous.

Senator HUMPHREY. Mr. Mulready, the matter of deterioration of the materials in the stockpile has been brought up today and was yesterday. What is the problem? These materials are not properly stored or is it just a shelf-life kind of thing? What is the problem and why isn't GSA dealing with it?

Mr. MULREADY. I think one of our problems in answering that question is that none of us has been able to see the material in the stockpile.

Senator HUMPHREY. How do you know it is deficient in quality?

Mr. MULREADY. I have talked to Ms. Catherine Law who is concerned with stockpile quality at the GSA. In addition, in the press, I have seen quotes from previous GSA officials who have questioned the quality of the material in the stockpile, particularly titanium sponge.

The storage of materials such as titanium sponge requires it be protected from the atmosphere. It is in a sealed container. The containers are steel and they are showing rust. When you see rust coming from the inside of your automobile, it means your fenders are about to rust through. It means in this case that the titanium is probably contaminated.

We have already talked about the cobalt. Material that does not deteriorate but was purchased with specifications that don't apply in today's world is another part of the problem. I can't really give you specific data beyond that.

Senator HUMPHREY. Is this issue, the quality of the materials in the stockpile covered in a Presidential report that was issued just recently? I guess it is an annual report.

Mr. ANDREWS. Yes, it is the report; I guess it is annual.

Senator HUMPHREY. What is the name of that report?

Mr. ANDREWS. Report of the President to the Congress, as mandated by the National Security Policy Act of 1980.

Senator HUMPHREY. Is the condition of the materials covered in that report?

Mr. ANDREWS. I believe it is. I have a copy of it in my files. I have another meeting later today that deals with it.

Senator HUMPHREY. If it isn't, maybe we ought to mandate that.

Mr. MULREADY. I think Mr. Andrews made a very good point, that if we can, in fact, decide as a country that the problem is big enough to be managed with the isolation and with the expertise that is needed to do the job correctly, that we should be careful about not encumbering that organization with too many directions.

Mr. ANDREWS. It does briefly mention it, Senator. It is apparent that a restructuring of stockpile inventory is necessary because the materials in the stockpile are either in deficit of goal or in excess of goal, and some of them possibly, technologically, are deficient, since they were acquired a long time ago.

Senator HUMPHREY. That means it is possible. If they don't know, who knows? We need to have an item-by-item report on the quality of these things.

Mr. ANDREWS. Absolutely, and quantity, Senator. We take 100,000 tons of chrome ore, perfectly good chrome ore, and we lay it on the ground in Charleston, S.C.; 25 years later can you go up there and pick up 100,000 tons? It is there, nobody stole it, but it has just gone into the ground.

Senator HUMPHREY. I will return to Mr. Lennon. You have been involved for quite a number of years in minerals trading?

Mr. LENNON. Yes, sir.

Senator HUMPHREY. And you have observed the management of the stockpile under various regimes, different administrative arrangements, for quite a number of years. How would you compare the present situation to others, and can you expand on that? Has it been done better in the past under previous managements?

Mr. LENNON. Yes, because the people involved at that time, going back to 30 years ago, were experts in the field. They knew the commodity; they knew what they were looking for.

Senator HUMPHREY. Who is "they"?

Mr. LENNON. GSA. They were experts.

Senator HUMPHREY. That is no longer true?

Mr. LENNON. That is no longer true.

Senator HUMPHREY. To what degree has there been a change? Are they pretty much without expertise today?

Mr. LENNON. It is limited.

Senator HUMPHREY. Amateur?

Mr. LENNON. Yes, I am afraid that is the adequate word. Quite a few of those people who used to be with GSA were picked up later by industry because of their knowledge, because they were instrumental not only in doing something for the Government but also they—well, I would say they were experts in their respective fields in their commodities and they had a fairly wide range. There was not one who was simply an expert on tungsten or titanium, but they had experts who were fairly wide ranging even on an international scope. I fear that is no longer the case.

Senator HUMPHREY. From your observation, is GSA making any attempt to recruit experts and specialists?

Mr. LENNON. I have no knowledge that they are doing that.

Senator HUMPHREY. Because you don't observe it?

Mr. LENNON. I have not seen it. They may.

Senator HUMPHREY. I wanted to establish whether you are in a position to know whether they are trying to recruit such people or not.

Mr. LENNON. Not to my knowledge.

Senator HUMPHREY. You have no way of knowing?

Mr. LENNON. No way of knowing.

Senator HUMPHREY. You have covered in your testimony your problems in consumating a trade, to swap, exchange, I guess, is a respectable word. You have been offered a number of reasons but in your opinion what is the real reason this thing has been off again and on again a number of times?

Mr. LENNON. We have only recently—there was a domestic supplier who also offered a limited quantity of vanadium for reasons which have not been made clear to us. First of all, we were requested to reduce our offer for 1.8 million pounds to 1.3 million pounds because they were giving consideration to another supplier who was a domestic supplier. We agreed to do that. Subsequently we got an acceptance of the award. This may or may not have been a mistake. I don't know.

We feel that the question of bias comes in at that particular point.

Senator HUMPHREY. Personal bias on the part of some official?

Mr. LENNON. Correct.

Senator HUMPHREY. How do you avoid that in the future?

Mr. LENNON. We feel that at a governmental level this should not happen.

Senator HUMPHREY. A lot of things should not happen.

Mr. LENNON. It is not something that we expected. Based on our experience with the Government, going back all these years, I have to say it has not happened to us, at least in the past. There was a tremendous amount of business in the 1950's on this type of basis, namely, barter.

Senator HUMPHREY. Would isolating these officials from political pressures lead to more objective decisions, in your opinion?

Mr. LENNON. It should, although I do not necessarily feel this was a political decision.

Senator HUMPHREY. You attribute it to bias. What do you suppose underlies such a bias? They didn't like the way you spell your name?

Mr. LENNON. No. I don't think it was directed to us. We were just an innocent party in this particular case. What happened is that we believe GSA was being sued by a company supplying tin to the market. These same people offered vanadium and that is where the basis came in against that company.

Subsequently, because of the peculiar situation, I believe it was decided rather than get themselves further into trouble, to pull the whole thing out.

Senator HUMPHREY. Getting back to the question of expertise, you say many of the expert people they had were lured away by industry.

Is it possible under the standard Government pay and benefits to attract and to keep persons of sufficient expertise, in your opinion?

Mr. LENNON. I think it should be possible. I do believe that a certain amount of training will be required. I noticed that there are a number of young people in GSA but unfortunately, from my point of view, they are not exposed to the necessary training so that they can go into their jobs. So, at a certain level, I believe expertise is required and it should be possible to get these people.

Senator HUMPHREY. You don't see that as critical?

Mr. LENNON. I consider it very critical in relation——

Senator HUMPHREY. To the requirement? You don't see it as a critical problem in achieving a high level of expertise?

Mr. LENNON. That is right.

Senator HUMPHREY. How would you compare the U.S. stockpiling program with that of France and Japan?

Mr. LENNON. I am a little bit familiar with the stockpiling program in France, less so in Japan. The French have a small group of people, a department—what they call groupment—where they have a handful of people who have expertise in the commodities and have full confidence of the Government. They decide what to buy and when to buy.

I understand that initially they got certain funds from the Government. Subsequently, in order to continue purchasing, they have developed a bond issue, public bond issue, to do the financing of their stockpile. They do buy when they feel the market is right for them to enter into acquisition at the lowest level. So, they have that flexibility.

Senator HUMPHREY. Do they publish the level of stockpiles?

Mr. LENNON. They do not.

Senator HUMPHREY. So we don't know whether they are better off than we?

Mr. LENNON. We do not know whether they are better off. The only thing we are aware of, to a certain extent some of the purchases, the commitments they have made in two commodities—vanadium and chrome—under very favorable conditions, admittedly so, not as favorable as the one we offered to GSA at the time.

Senator HUMPHREY. You have no way of knowing how successful they are in meeting their objectives? How skillful are they in trading, buying, and selling, so as not to disrupt the market, getting a good deal for the taxpayers and so on? Are they doing better than we?

Mr. LENNON. To the best of my knowledge, they do not trade; in other words, they do not sell. They buy. They are better than we are because they pick the time when they decide that the market suits them to come into the market to buy.

What has happened in some instances is that people had certain surplus quantities of chrome, for instance, and they went there and they negotiated a very good price for the chrome and they bought it on that basis.

Senator HUMPHREY. Would GSA be able to negotiate more skillfully if the terms were confidential?

Mr. LENNON. Yes, I would think so, but it would seem to be very difficult to keep negotiations confidential because while we were negotiating, our price becomes public. How, we never found out.

Senator HUMPHREY. Apparently, there is a 30-day waiting period before bids are accepted; is that correct?

Mr. LENNON. That is correct.

Senator HUMPHREY. How does that work in practice? Market conditions change within a day-to-day period?

Mr. LENNON. It is very difficult.

Senator HUMPHREY. It makes it less likely you will be interested. How does it affect the deal?

Mr. LENNON. It depends on the time, economics, et cetera. Metals change too quickly. In 30 days, you are very reluctant to commit yourself for 30 days. You protect yourself. When you offer for 30 days, you have to come in at a somewhat higher level.

Senator HUMPHREY. So you put a granny factor in there——

Mr. LENNON. You have to.

Senator HUMPHREY [continuing]. As we say in the flying business.

Do you have any recommendations to GSA on how it can improve its very poor performance, market timing, if you will? It seems, historically, that GSA has sold low and bought high.

Mr. LENNON. Unfortunately, that is not limited to GSA. We all do that. Again, that comes back, I believe, to the question of expertise. If you have the people who are knowledgeable, I mean in our case when we were prepared to proceed, at the time the price level of tin was $8 a pound, so we would have had a lesser quantity and paid a higher price to GSA. Today, the price is $1.30. So it wasn't logical not to do the transaction at that particular time because, from a Government point of view, they certainly would have benefited.

Mr. ANDREWS. Mr. Chairman, may I comment on that question?

Senator HUMPHREY. Yes.

Mr. ANDREWS. Part of the reason is that the GSA, the way it is structured, is isolated on a certain commodity, whereas, managing a total portfolio of commodities, as Jacques would do or as I would do in a company, you buy and sell. What you lose on bananas you make on the oranges. Usually they are selling silver, period; whatever the market is, that is it, whether it is a good time or not. For cobalt, I screamed every year for 10 years, almost 6 million pounds of cobalt came out of that stockpile, as the copper market was growing thinner and thinner, and anybody should have known you don't sell that cobalt, but we did because we were balancing budgets.

Now, he could have taken a loss on his cobalt and he could have made it up on something else somewhere.

Senator HUMPHREY. Mr. Lennon, one other question: From an industrial perspective, does the stockpile notification of disposals and purchases, notification to Congress, create a disadvantage to the Government in respect to prices?

Mr. LENNON. It is again a question of timing. It is the timing when they announce they have a surplus that they want to dispose of, rather than choosing the market. The less said, the better, basically, from that point of view. In other words, if you have a group of people knowledgeable who can control the operation, they should be able to maneuver and pick the timing for any announcement, saying that if they want to sell manganese today it will be impossible; today to sell manganese they would have to make great concessions. So this has a negative effect, yes, I would think so.

Senator HUMPHREY. Mr. Mulready, if the Schmitt proposal had been in place would it have been able to prevent the cobalt crisis of 1978–79? I know you have touched on that already.

Mr. MULREADY. I think, yes, it would have; it certainly would have gone in the right direction. It was the decision to sell the material over the preceding 10 years, at a low price, which prevented people who might otherwise have developed additional cobalt sources, from making the investment that was necessary.

I make no claim of having any detailed knowledge about the materials trading business. These gentlemen are the experts in that business. I am a user three or four tiers down, but as I see it, the management of the stockpile is fractured and disorganized and chaotic; it needs to be reorganized and consolidated. Most importantly it needs to be isolated from the political process with a system such as a commission which has been proposed in S. 1982.

Senator HUMPHREY. Mr. Melbye, how much cobalt can the United States produce in a year?

Mr. MELBYE. Right now, of course, we are producing none, but there are two or three different domestic operations that are all about in the same category; they cannot invest substantial amounts of money to compete with Zaire and Zambia.

Cobalt is a byproduct of copper mining, so there really is not a true value as ascribed to cobalt. They produce copper, and cobalt comes along. You need to invest anywhere from $150 to $200 million in a plant to produce cobalt in competition with those countries. So, if sufficient incentives were there, there could be at least 6 million pounds of cobalt produced per year and possibly as much as 8 million pounds of cobalt produced per year, in this country. That would supply more than all our superalloy needs. Superalloy use of cobalt is generally regarded as the most critical use of cobalt.

Senator HUMPHREY. Could that go for a number of years?

Mr. MELBYE. Yes, with the reserves in the ground, we could go on for at least 20 years, probably longer.

Senator HUMPHREY. Obviously, you want some activity under the Defense Production Act?

Mr. MELBYE. Yes.

I would like to make this point: In the year and a half we have been coming back to Washington I have seen the people who are responsible for strategic mineral decisions—the Defense Department, FEMA, the National Security Council, the Bureau of Mines, the Interior Department, Commerce, the Office of Management and Budget. Everyone agrees the problem is there. It is a real one, but no one has the authority to negotiate or to make any decisions in this area. It is all fragmented. It is one of the most frustrating things to come back and say everybody agrees with you but nobody has the authority to do anything. That is really where we are.

Senator HUMPHREY. Apparently as a result of the new strategy announced by the administration, FEMA is re-evaluating the goals. It may be that some of the things now thought to be in excess will no longer suddenly be in excess, which takes away the potential of raising money internally. Does anybody want to give their evaluation of that situation? Are we likely to have any means to raise money through sales after this re-evaluation? It is pertty hard to know, I guess.

Mr. ANDREWS. Yes. You would have to know what commodities.

Senator HUMPHREY. How in the world are we going to finance this $10 billion shortfall? Does anyone have any innovative ideas? Special bonds?

Mr. ANDREWS. That is one. I will lead off on this. Of course, you start back by saying had we passed the 1979 act in 1959 you would not have that problem today, because you would have kept the funds in there. You sold 300 million pounds of nickel and dumped the money in the Treasury, and sold 60 million pounds of cobalt and dumped the money in the Treasury. Now you have depleted the stockpile and the funds that was once put up for material have been spent for food stamps or something. It is a matter of priorities, I guess.

Senator HUMPHREY. Congressional pay raises?

Mr. ANDREWS. Right. First, if you create what the Schmitt bill has in mind, you have this independent unit here. It is a company. They start out with a company in serious disarray and underfinanced, but given time, if you float bonds—and that is one way to do it—and then manage the sale and repurchase, there is not a good material manager in the world who can't make that a profitable transaction over time. He will make a profit for the Government.

But it is going to take time. You can't take 26 years of milking that business—which is what the Government has done by selling off that nickel and selling off that cobalt—and put it back on its feet overnight unless you want to go into a major refunding program, which means going to the bond market or what have you, a Chrysler bailout.

Senator HUMPHREY. Are you confident enough in the prospect of being able to manage it profitably to invest in such bonds——

Mr. ANDREWS. Yes.

Senator HUMPHREY. As a means not only of making a profit but also helping to assure a supply of the materials?

Mr. ANDREWS. I would think so. If it is properly structured, properly managed, in time it will make money, as any good materials trading management company would do. It will make a profit. It is going to take a long time because we are starting so far behind, but by proper turnover, proper moves in and out of the market, picking your spots and getting some funds up front to work with, you can make that a profitable activity.

I may not be around long enough to see it get there, but you will, sir.

Senator HUMPHREY. I am afraid if we wait for Congress to replenish the fund with some fresh cash that it will take a long time. We need to find some innovative approaches. This is kind of grasping at straws but maybe there is enough interest in the industry out there that they will be willing to invest in an equity arrangement.

If anybody has any ideas, I would certainly like to hear them.

Mr. ANDREWS. The French did it with bonds, as I remember.

Mr. LENNON. Yes.

Mr. MELBYE. Another point, in the case of silver, with better management you could have a lot more funds in the stockpile fund. In other words, when silver was going up to $50 an ounce—you probably would not have sold it at $50 an ounce—let us say, you would have sold 100 million ounces of surplus silver at $25 to $30 an ounce—it would have provided a lot more funds in the stockpile to buy the other metals.

Now they are talking about selling silver at $6 an ounce. Better management will give you additional funds.

Senator HUMPHREY. What has been lacking has been the expertise and ability to react quickly enough?

Mr. MELBYE. React quickly enough with the silver price going up, someone should have had authority to sell when it was in the higher price ranges.

Mr. MULREADY. I think that is the way we feel. We feel the $10 million shortfall is something we really don't know exists. We would like to see some experts play with that asset for a while and see if they can make it self-financing to a large degree.

Senator HUMPHREY. What is Pratt & Whitney doing to find substitutes? Do you have an R&D program?

Mr. MULREADY. Yes, we do. We have worked substitution and utilization of materials very hard.

Senator HUMPHREY. Are there any breakthroughs looming?

Mr. MULREADY. Yes; I think particularly in the work being done to reduce the amount of material necessary to make parts. For instance, one main engine case that is made of titanium in the F-100 is called an intermediate case, a large main structural part; it was fabricated in the conventional fashion with welded sheet metal and forgings. It required something on the order of 1,100 pounds of titanium to make a case that weighs less than 100 pounds when it is finished.

New advanced casting techniques are now being used to produce this case so that only 410 pounds of input to material are required to make this case. There are a lot of things going in the technology.

Senator HUMPHREY. You are saying more efficient use of materials is the best hope, that we are not likely to see much in substitution?

Mr. MULREADY. It is limited. In our particular business there was lots of room to improve to make a better utilization of materials. There are also possibilities for substitution.

Mr. Andrews has said, however, when you get around to something like chromium, I don't think anyone knows how to provide corrosion protection without chromium. You can provide oxidation protection but not corrosion protection.

Mr. ANDREWS. Who, sir, is going to spend—it has been estimated by the University of California—$2 billion in a research program to find out how to design a way for just 60 percent of our chrome requirement when the South Africans are sitting over there with 1,000 years' supply that they will probably be selling for 50 cents a pound, probably will?

Mr. MULREADY. Most of the time.

Mr. ANDREWS. Who is going to make that investment?

Senator HUMPHREY. Gentlemen, thank you very much for your time and your patience and your expertise. If you have any more ideas, particularly in the area of how to finance this operation, let us know.

We may wish to submit further questions to you in writing. We will leave the record open for 2 weeks.

The subcommittee stands adjourned.

[Whereupon, at 11:25 p.m., the subcommittee was adjourned, subject to call of the Chair.]

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